Career Ready Academy

TEXTBOOK

Comercial Line Insurance

Final Module for COB 2

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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 2 – Short-term Insurance Commercial 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 2

Topic 1 Business Insurance Basics

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 commercial line short-term insurance policies.
- Conduct a needs analysis for a client with regard to commercial 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 INTRODUCTION

Business insurance performs a critical role in the world economy. Without it, the economy could not function. Insurers essentially protect the economic system from failure by assuming the risks inherent in the production of goods and services. This transfer of risk frees insured companies from the potentially paralyzing fear that an accident or mistake could cause large losses or even financial ruin.

Managing risk carries a tremendous responsibility. It also requires an almost encyclopedic knowledge of how things work. There are different types of industries according to the processes used to produce goods or services. There are millions of businesses, each of which employs one or more of these processes and each of which buys some kind of insurance.

To cover the risk involved in all of these different kinds of businesses, the commercial lines sector sells some 20 major insurance coverages and dozens of specialty products. Since the first fire insurance policies were written in the 1700s, it has responded to new types of risk by creating new coverages to protect its policyholders and carving out niche products to respond to the needs of specific industries. Recent examples of this are technology errors & omissions and cyber-risk liability, both of which were developed in the late 1990s to address risks involved in such businesses as personal information data processing.

1.2 TYPES OF COVER AVAILABLE IN COMMERCIAL LINES SHORT TERM INSURANCE

The risks covered by commercial lines insurance is considered in the subsections following.

1.2.1 Fire

The fire section of a commercial policy covers damage to property caused by fire and associated perils., including the following:

- ☐ Storm, wind, water, hail or snow
- ☐ Explosion
- ☐ Lightning
- ☐ Earthquake
- ☐ Impact of vehicles, animals and falling trees
- ☐ Leakage of fire extinguishing appliances
- ☐ Subsidence and landslip
- ☐ Aircraft or aerial devices
- ☐ Malicious damage.

1.2.2 Accident

An accident is an unforeseen or fortuitous act that affects the insured resulting in loss.

Accident covers the following sections:

- ☐ Theft
- ☐ Loss of money
- ☐ Goods in transit – damage or loss to goods being transported on a conveyance
- ☐ Personal accident
- ☐ Business all risks
- ☐ Fidelity – fraudulent actions by employees

1.2.3 Liability

Liability covers legal liability for negligent acts of the insured, which cause loss or damage to property or people. The liability section can also include the following:

- ☐ Product liability, guarantee, recall and inefficacy
- ☐ Defective workmanship
- ☐ Defamation and wrongful arrest
- ☐ Cost of defence of criminal action under certain statutes (legal expenses)

There is a specific exclusion for products exported to North America and an extension for products exported to the European Economic Community.

The perils covered under this insurance is negligence of the insured.

1.2.4 Accidental Damage

Accidental damage provides cover for accidental damage to property on the premises, which is not insured, nor is insurable, by other sections of the commercial policy.

Accidental damage may include damage caused to goods on a shelf when it collapses.

1.2.5 Motor

The motor section of a commercial policy covers loss of or damage to and liability in connection with a motor vehicle owned by the business. This could include motor fleets, motor traders or delivery or business-owned vehicles defined in the policy.

The perils covered under this insurance are as follows:

- ☐ Damage to vehicles
- ☐ Third-party liability
- ☐ Theft

1.2.6 Business Interruption

Business interruption is designed to compensate an insured for financial losses to the business as a consequence of losses incurred resulting from an insured peril on the fire and machinery breakdown policies. Some insurers will extend this to losses insured by the burglary and other asset policies.

1.2.7 Engineering (Machinery Breakdown)

Engineering covers loss, damage and consequential loss caused by the breakdown of machinery, such as:

- ☐ A boiler explosion
- ☐ An electric motor burns out on a printing press

1.2.8 Contractors All Risks (CAR)

This section covers damage to the works, plant and materials on contract sites.

The CAR policy will also extend to cover Public Liability Insurance.

Examples of these could include the following:

- ☐ Dam wall, roads, buildings, bridges under construction
- ☐ Cement mixers
- ☐ Scaffolding
- ☐ Mobile crane on a contractor's site

1.2.9 Guarantees and Bonds

A number of different types of bonds and guarantees are underwritten in the short-term insurance market. These may include the following:

- ☐ Performance bonds: In the event of failure of a contractor to perform
- ☐ Court and estate duty bonds: Insisted on by the Master of the Supreme Court for performance of liquidators on insolvent estates and deceased estates.

The main perils covered by guarantees and bonds are insolvency and performance of obligations.

1.2.10 Commercial Multi-Peril Policies

Each client's policy should be tailored specifically to that client's risk exposure and needs.

1.2.11 Specialist Products

These are products specifically designed to cover specialised risks.

1.2.12 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.

1.3 NICHE (SPECIALIST) MARKETS

Niche markets are underwriters who specialise in specific and unique risks for example, marine hull insurance.

A referral to a niche specialist is required when one has need of the specialist service for an expert in a certain area of cover.

Often the representative, intermediary or company, may feel that they are specialists in the area of commercial or corporate insurance because they have been in the industry for many years, however, there may be instances when a risk particularly falls outside of the expertise of an individual or company and a niche specialist is required.

1.4 PREMIUM STRUCTURES FOR COMMERCIAL LINES 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.

1.4.1 Underwriting Guide

Each insurer compiles a unique underwriting guide with their applicable rates, which express their underwriting philosophy. The underwriting guide will list rating structures for the majority of commercial or industrial risks, covering all classes of business within the normal multi-peril policy.

1.4.2 Fidelity Rates

Fidelity insurance provides cover for theft or fraud committed by an employee against his employer.

As a guide, underwriters use a premium rating charge issued by one of the South African Reinsurers. The premium rates are based on number of people insured, the turnover of the business and the amount of fidelity cover required.

1.4.3 Loadings

A loading is a percentage that is added to the standard rate to cover the additional risk exposure perceived by the insurers.

For example, the storage of flammable liquids could result in a loading being applied to the rate of premium for buildings and contents and also affects the business interruption rate.

Another example is a fleet of motor vehicles that has a bad claims experience.

1.4.4 Discounts

A discount is a percentage that may be deducted from the standard rate for the reduction of risk.

For example, a tracking device fitted to a vehicle could result in a discount on the motor premium charged.

Another example could be an approved sprinkler installation in a factory, which could result in a discount being applied to the building and contents fire premium.

1.4.5 Excesses

Excesses are used for the following reasons:

- ☐ To eliminate the costs of small claims.
- ☐ To make the insured a self-insurer for part of the risk.
- ☐ A voluntary excess is used to reduce the premium payable.

Excesses will only have an impact on premium in the event of a client accepting a higher excess to reduce the premium charged.

1.4.6 Additional Requirements

Additional requirements may be in the form of the following:

- ☐ Valuation certificates to prove the value of the insured item.
- ☐ Security certificates to prove the measures of security taken to reduce the risk exposure.

An example of such would be an Automatic Sprinkler Bureau certificate for a commercial/industrial building. Although these certificates or valuations do not have a direct impact on the premium charge, they are required to calculate the correct rate of premium.

1.4.7 Business Interruption

Within the commercial quotation process the underwriting guide stipulates the rate of premium that is charged per section of the policy based on the value of the assets to be insured.

However, business interruption cover stipulates two optional formulae that may be applied in calculating the sum insured upon which the premium is to be charged. Whichever method is used, the resultant sum insured is identical.

These formulae are the additions basis and difference basis.

The additions basis formula is as follows:

$$\text{Net profit} + \text{the specified standing charges} = \text{sum insured (insured gross profit)}$$

The difference formula is as follows:

Turnover + closing stock - the opening stock, purchases and those costs that will reduce in direct proportion to turnover (uninsured working expenses) = sum insured

The table below shows an example of how the two different basses will be applied to a specific company.

Stock at the beginning of the year (opening stock)	R13 000
Purchases	R60 000
Stock at the end of the year	R18 000
Variable charges (other than purchases): i.e., uninsured costs	R15 000
Sales	R100 000
Standing charges	R20 000
Net profit	R10 000
Additions basis: Net profit +standing charges = R10 000 +R20 000 = R30 000	
Difference basis: Sales + closing stock - opening stock – purchases – uninsured costs R100 000 + R18 000 – R13 000 – R60 000 – R15 000 = R30 000	

Table 1.4.1. Extract From a Company's Trading Account

1.5 BASIC KNOWLEDGE OF FINANCIAL STATEMENTS

A representative would need to confirm the value of a business's financial risk by evaluating the balance sheet and trade account of an entity.

If liabilities exceed assets the company is technically insolvent.

For the purposes of establishing a business interruption sum insured, it is necessary to analyse the trading accounts, as the balance sheet does not provide all the information required. By looking at and applying the definitions stated in the business interruption policy, it is a relatively simple act to extract the information required from the accounts. It is essential that this process is understood and followed, as the definitions in the financial statements do not necessarily match with those in the business interruption policy. Furthermore, it is prudent to involve the client's financial director or accountant in this exercise.

The subsections following consider the different elements that can be found in an income and balance sheet of a business.

1.5.1 Assets

This is the total value of property owned by the insured, including money.

An asset is anything tangible or intangible that is capable of being owned or controlled to produce value and that which is held to have positive economic value is considered an asset. The balance sheet of an entity records the monetary value of the assets owned by the entity consisting of money and other valuables.

Assets can be divided into the following categories:

- ☐ **Current assets**: Cash and other assets expected to be converted to cash.
- ☐ **Long-term investments:** Investments in fixed assets not used in operations for example, equity investments.
- ☐ **Fixed assets:** Property, plant and equipment used to earn profit in an entity.
- ☐ **Intangible assets:** Patents, copyrights and goodwill.

All of these assets have a monetary value, and can, if required, be converted into money.

1.5.2 Liabilities

Liabilities are what an entity owes to people or businesses outside of itself. These can include the following:

- ☐ Loans from the bank
- ☐ Credit from vendors
- ☐ Vehicle leases or loans
- ☐ Loans from shareholders

1.5.3 Operating Costs

Operating costs are the costs incurred in running an entity, including the following:

- ☐ Wages or salaries
- ☐ Purchase of raw materials
- ☐ Costs of public utilities
- ☐ Rentals.

1.5.4 Profit And Loss

Profit and loss is the amount earned or lost by an entity in a financial year before the deduction of tax. This can be found on a company's balance sheet and trading accounts.

1.6 NEEDS ANALYSIS FOR BUSINESSES

1.6.1 Determining a Business'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 business address
- ☐ 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.

1.6.2 Understand Your Client's Business

Familiarise yourself with the business your potential client is involved in and the strengths, weaknesses, opportunities and threats to which it is exposed.

Important too, is background information of the company's history, structure and existence, including achievements and downfalls, as this indicates the stability of the company.

1.6.3 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 and five 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.

1.6.4 Identify the Areas of Risk to Which the Commercial Entity is Exposed

Based on the survey report completed, one can identify the financial and physical risks to which the commercial entity is exposed.

This would include analysing the information regarding the items or assets to be insured, such as values of the following:

- ☐ Buildings.
- ☐ Trading stock.
- ☐ Plant and machinery.
- ☐ Stock of completed goods.
- ☐ Other contents such as office equipment, documents, and records.
- ☐ Turnover for the identification of business interruption risk.

The hazards are also analysed in terms of the insurance cover required and the limitations thereof.

With regard to business interruption cover, the insured's gross profit can be formulated on either the additions or difference basis. Whilst it is essential to follow the definitions in the policy wording the under mentioned will give the representative an overview of what is required.

The additions basis is the net profit plus the specified standing charges. Specified standing charges are the charges that do not vary proportionately to the turnover.

The difference basis is the turnover plus closing stock less the opening stock, purchases and those costs that will reduce in proportion to turnover. This information is extracted from the trading account of the company.

1.6.5 Determining The Factors Or Hazards That Influence Risk

Determining the factors or hazards that influence risk in terms of severity and frequency includes considering the information regarding the items or assets to be insured. These are considered in the subsections following

I) Buildings

The following with regard to buildings need to be considered:

- ☐ The value of the property and its structure(s).
- ☐ The location of the property. Its proximity to open fields, rivers/water lines and adjacent properties which may pose additional risk.
- ☐ Details of the building structure, such as standard construction material or a thatched roof.
- ☐ Additional structures on the property such as the outbuildings.
- ☐ Occupation of the building and the processes carried on in those buildings.
- ☐ The general state of repair of the building/s.

II) Contents

The following with regard to contents need to be considered:

- ☐ The value of the contents.
- ☐ Office contents.
- ☐ Stock of raw materials and finished goods.
- ☐ Plant and machinery.
- ☐ Security arrangements of the property: precautionary measures such as burglar proofing, alarms linked to 24-hour armed response, electric fencing and secured walls around the perimeter of the property.
- ☐ Hazardous materials or processes.
- ☐ Fire extinguishing equipment such as automatic sprinklers, fire hoses and handheld extinguishers.
- ☐ Construction of the building in terms of soundness of the structure of the building and the material of which the building is made.
- ☐ Electrical supplies or outlets and the condition thereof, such as wall and floor plugs and cables being secure and in good repair.
- ☐ The general state of housekeeping within the premises.

III) Business All Risks

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 practiced by the insured.

These items can include copy machines, switchboard systems and electronic equipment.

IV) Motor

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 which may include:

- Sound systems or speakers
- Magwheels
- Spoilers
- Performance system
- Tools of trade such as hoists and winches permanently attached to the vehicle.

Security arrangements may be factory fitted and can include:

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

Fleet management procedures relates to the following:

- Maintenance of the vehicles
- Driver training
- Accident prevention
- Driver registers per 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.

V) Electronic Equipment

The following with regard to electronic equipment need to be considered:

- 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.

VI) Group Personal Accident/Stated Benefits

The following with regard to benefits need to be considered:

- Description of the various occupations of the employees

- Age of employees

VII) Liability

The following with regard to liability need to be considered:

- ☐ Access by the public
- ☐ Products manufactured
- ☐ Manufacturing processes – risk of explosion
- ☐ Sign boards: risk of collapse
- ☐ State of building: risk of a person being injured by a defect in the building
- ☐ Cleaning processes: risk of a person slipping on wet floors
- ☐ The final destination of goods in particular to overseas destinations such as the USA & UK.

1.6.6 Establishing the 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.

1.6.7 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.
- ☐ **Special conditions applicable to cheques:** the money section of a policy outlines a specific procedure that should be followed with cheques. If this procedure is not adhered to the claim will not be paid.
- ☐ **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.

Municipalities and other parastatal organisations are restricted in terms of the requirements imposed by law, such as the Public Finance Management Act, which states that three quotes are required and above a certain threshold limit has to go to tender.

Subsidiary companies are often restricted in their authority by the parent company in providing authorisation on a particular supplier such as an insurer or intermediary service provider.

1.7 TERMS AND CONDITIONS OF COMMERCIAL LINES SHORT TERM INSURANCE PRODUCTS

The following are standard wordings to a normal commercial insurance product. Some specialist markets may use wordings that are more applicable to their particular product.

1.7.1 General Exceptions

Grouping together the exceptions and conditions applicable to most sections of the policy saves repetition, but you must remember these when studying the rest of the policy wording.

1.7.2 Riots

This refers to loss or damage to property related to or caused by any of a long list of events, mainly related to riot, strike, public disorder, and warlike operations of any kind. War is a national concern, where Government becomes involved, but for other kinds of disorder, political or non-political, cover is usually available from SASRIA (South Africa) or NASRIA (Namibia), and in other ways (not discussed at this stage).

1.7.3 War

The policy also excludes loss or damage caused directly or indirectly by any occurrence for which a fund has been established in terms of the South African War Damage and Compensation Act (no. 85 of 1976), or similar Acts in other territories.

1.7.4 Nuclear

Except for the Fidelity, Stated Benefits and Group Personal Accident Sections, the policy does not cover any loss of, or destruction or damage to property, any consequential loss, or any legal liability arising from ionising radiations or radiation contamination by nuclear fuel, nuclear waste from the combustion of nuclear fuel, or nuclear weapons material. This is because no one insurer could carry such a large risk.

Remember that other sources of radiation, such as radioisotopes, particle accelerators, X-ray apparatus and lasers, are in use in industry, medicine and research. The exclusion does not apply to these. Such risks must be carefully considered, but can be underwritten in the ordinary material damage and liability policies.

1.7.5 Computer Losses

There is also a general exception for losses arising because of computer malfunction caused by incorrect programming, etc., for example, incorrect date formatting, or as a result of viruses, etc.

1.7.6 General Conditions

Many of the general conditions modify or reinforce the position at common law, so that there is less chance of disputes developing. These conditions may include the following:

- ☐ **Misrepresentation:** Misrepresentation, misdescription and non-disclosure of material particulars render the particular section or item voidable at the insurer's discretion.
- ☐ **Other insurance:** The policy will pay only its rateable share of the loss, in other words, the insured himself must also claim from each of the other policies, (rather than claim from only one, and then leave the insurers to sort out contribution between themselves). Also provides for the importation of average, where this does not already apply to both policies.
- ☐ **Cancellation:** Cancellation by the insured is usually immediately (normal short period or minimum premium may be charged) or on 30 days' notice by the insurer, subject to a pro rata refund.
- ☐ **Continuation of cover:** If the premium is paid by debit order, the insurance automatically lapses if the debit order is not met, unless it can be shown that this was due to an error by the bank. The condition makes provision for monthly, quarterly, half-yearly or annual premium payments.
- ☐ **Premium adjustment:** Annual adjustment of premium on some sections of the policy, based on the insured's declarations.
- ☐ **Prevention of loss:** the insured cannot be expected to prevent all losses (there would be no point in having the insurance), but the precautions and action taken must be reasonable in the circumstances. The insured should always adopt the philosophy of acting as if not insured.

1.8 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 considered in the subsections following.

- ☐ **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.

1.9 QUOTATION

A survey is required for this client, to facilitate a quotation as well as the claims experience for each section of the quote.

The information regarding the business required to facilitate a quotation are considered in the subsections following.

1.9.1 Fire

The following information is required:

- ☐ Fire extinguishing appliances automatic and manual and service dates
- ☐ Hazardous processes conducted on the premises
- ☐ Proximity and exposure of neighbouring property

1.9.2 Office Contents

The following information is required:

- ☐ Separate office block or contained in factory
- ☐ Security precautions against theft

1.9.3 Business Interruption

The following information is required:

- ☐ What costs are to be noted for the difference basis
- ☐ Names of suppliers

1.9.4 Theft

The following information is required:

- ☐ Name of security firm
- ☐ Are watchmen employed?

1.9.5 Money

The following information is required:

- ☐ Is a security firm used for the transit of money?

1.9.6 Public Liability

The following information is required:

- ☐ Does the public have access to the premises?
- ☐ Are any goods exported to North America or the European Economic Community?
- ☐ Description of products
- ☐ Limit of indemnity for defective workmanship and products liability

1.9.7 Stated Benefits (Personal Accident)

Number of employees in each category

- ☐ Wages applicable for each employee category

1.9.8 Motor

The following information is required:

- ☐ Year of manufacture and value of each vehicle
- ☐ Registration details per vehicle
- ☐ Value of radio/tape/CD players per vehicle
- ☐ Name of finance house involved for credit shortfall
- ☐ Details of SASRIA covers required
- ☐ Hire required
- ☐ Locks and keys
- ☐ Waiver of excess

Once all of the above information has been established the representative will request insurers to quote based on information given to provide a quote comparison.

1.10 COMPARE THE TYPES OF COVER AVAILABLE TO THE CLIENT

In commercial insurance the cover provided between insurers has minor differences, which should be identified by the representative. The main differences to be compared are in the prices offered by the insurer, the excesses or loadings applied and any specific warranties that may be imposed.

It is in this area that the representative should be aware of the FAIS General Code of Conduct, Conflict of Interest regulations, as it becomes vitally important that a representative may not recommend an insurer for which the premium charged is higher, where the cover is identical, for the sole reason that they would earn a greater commission.

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.

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.

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.

1.11 ASPECTS RELATING TO CLAIMS ON COMMERCIAL LINES SHORT TERM INSURANCE PRODUCTS

As soon as reasonably possible, the insured must give notice of any event that may result in a claim. This is especially important in connection with liability risks, or where the insurer might want to insist on extra precautions. If a claim then results, the insured must, as soon as possible take the following actions:

- ☐ Submit full details in writing.
- ☐ Provide the required proof and documentation, and immediately forward any third-party claim or summons to the insurer to deal with.
- ☐ In case of theft, notify the police, and cooperate in trying to recover the stolen property.

Insurers cannot allow an unlimited time between the event, and a claim being made. Unless they agree specially, the maximum allowed is 24 months. This limit does not apply to business interruption, fidelity, personal accident/stated benefits, third party liability and where there is pending legal action, but some sections of the policy have their own special requirements.

If the claim is rejected, the insured has only six months, (prescription) from the date of repudiation, to start legal action against the insurer. It is not enough to give notice of legal action; the insured must also pursue this to finality.

The insured, if asked to do so, has to assist the insurer in the recovery of lost or stolen property.

1.11.1 Company's Rights After an Event

The insured cannot abandon property to the insurer, but the insurer can take possession of damaged property. They must deal with the property in a reasonable manner, otherwise they can be liable for any further damage that results from their actions.

The insurer can take over the rights of the insured immediately and recover against third-parties. Subrogation proceedings will be at the insurer's expense, but the insured must cooperate.

Liability to third parties. This might exceed the limit under the policy, so the insurer has the option of paying the insured the limit of indemnity and withdrawing from the claim.

1.11.2 Other Aspects

Other aspects that should be considered with regard to the claims process are as follows:

- ☐ **Fraudulent claims:** Any fraudulent claim is forfeited. This includes those insured who, for example, intentionally set fire to their own property, or arrange to have it set fire to or be stolen.
- ☐ **Reinstatement after loss:** Insurance holders, and even some brokers, do not always understand that payment of a loss generally reduces the available cover. For example, if contents are insured for R60 000 and R20 000 is then lost, only R40,000 is left for later claims during the same period of insurance. If replacement property is bought, the original sum needs to be reinstated. This condition makes this plain, and provides for reinstatement to take place automatically, so that the client is not left with insufficient cover. Normally, an additional premium is due, but insurers often reinstate small losses free of charge. This condition does not apply to personal accident/stated benefits. Stock declaration conditions under the Fire Section, and the Fidelity Insurance Section have special provisions for reinstatement.
- ☐ **Breach of conditions:** A breach of conditions affects only the particular section, not the policy as a whole.
- ☐ **No rights to other persons:** Emphasises that the contract of insurance is between the insurer and the insured. No rights are given to any third parties.
- ☐ **Collective insurances:** Some large policies are issued by a panel of insurers, each of them named in the policy together with their percentage. One insurer takes responsibility for the issue and administration of the policy and is called the "lead insurer". The condition makes provision for this.
- ☐ **Claims preparation costs:** This provides cover of a percentage, normally 10% of the sum insured or limit of indemnity or a specified amount on the item affected, whichever is the lesser amount. This is in addition to any amounts specifically shown in the various sections.
- ☐ **Payments on account:** At the insurer's discretion, interim payments may be made to the insured, pending finalisation of a claim.
- ☐ **First amount payable:** The policy excess, as it features in some sections of the policy.
- ☐ **Members:** If the insured is a close corporation, rather than a company, "member" is used instead of "director".
- ☐ **Liability under more than one section:** This is to guard against accumulation of cover under the different liability sections but is not meant to penalise an insured who may have insured the same risk under two policy sections, for example, rent under Fire as well as under Business Interruption.
- ☐ **Meaning of words:** Policy wordings, schedules and endorsements must be read together with one another, and any specific meaning applied throughout.
- ☐ **Premium payment:** Premium is payable on or before the inception date or renewal date. Insurers do not have to accept late payments; this is at their choice.

- ☐ **Holding cover:** To form a valid contract, the terms including the premium must be agreed. If insurers are holding cover, they will not reject a claim merely because the premium has not yet been agreed.
- ☐ **Schedule sums insured blank:** This makes it very clear that if the sum insured/limit of indemnity is left blank or shown as “nil” or “not applicable”, this means no cover, not “no limit to the cover”.
- ☐ **Security firms:** This does not mean that the policy now covers the security firm, but that the insured’s rights under the policy are not prejudiced by entering into a contract required by the security service; and if this contract prevents the insured from claiming against the security firm for loss or damage caused by its employees, the insurers will, likewise, not exercise their rights of recourse against this firm.

Topic 2 Different Types of Business Insurance

LEARNING OUTCOMES

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

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

2.1 INTRODUCTION

Most businesses need to purchase at least one of the insurance discussed in the subsections following.

2.2 PROPERTY INSURANCE

Property insurance compensates a business if the property used in the business is lost or damaged as the result of various types of common perils, such as fire or theft. Property insurance covers not just a building or structure but also the contents, including office furnishings, inventory, raw materials, machinery, computers and other items vital to a business's operations. Depending on the type of policy, property insurance may include coverage for equipment breakdown, removal of debris after a fire or other destructive event, some types of water damage and other losses.

2.2.1 The Insurance of Buildings

The buildings section of a commercial policy includes cover for theft of parts of the building, and property owner's liability.

Buildings combined is meant for buildings in less hazardous occupation, such as flats, offices, schools, professional rooms, hospitals and medical suites, museums, art galleries, and libraries. Sometimes a special form of policy is used for sectional title developments.

Insurers will have an underwriting guide specifying the full list of occupations for which they are prepared to give combined cover. Some buildings are occupied partly as shops and partly as flats or offices. Ideally, the commercial section should form a separate fire risk, but this is no longer generally true.

A survey should be done to determine the degree of commercial exposure and the terms on which the insurer is prepared to write the business. The fire perils insured are similar to the fire section but simplified due to the type of property for which the policy is meant. The section has a similar extension for accidental damage to public supply connections.

The following general conditions with regard to cover is applicable:

- ☐ Accidental damage to sanitary ware is covered subject to an excess.
- ☐ Cover is subject to the pro rata condition of average.
- ☐ Water damage does not exclude sprinklers, so there is no need for a sprinkler leakage extension.

- ☐ There is automatic cover against loss of rent due to any of the fire perils. Rent is calculated on the rent payable or the rental value, immediately before the damage, and is limited to 25% of the sum insured.
- ☐ If stated in the policy, this includes loss or damage to property within a 10 km radius that prevents or hinders access to the property insured.

2.2.2 Body Corporate Considerations

Body Corporate, or Sectional Title developments are increasing in number and the provisions of the Sectional Titles Act need special consideration. Each owner has an interest in his own unit and there is usually a mortgage bond in favour of a financial institution. All share in the common property such as boundary walls, entrance development and facilities such as laundromat and swimming pool.

It is preferable that one policy be issued, in favour of the Body Corporate. A schedule is attached showing the sums insured for the separate units, and for the common property. However, there is nothing to prevent an individual owner from taking out separate insurance on his unit.

The contents or assets covered under business insurance is categorised to identify the type of cover applicable to each.

There must be actual physical loss or damage to the insured property. Any special provisions of the Sectional Titles Act do not affect the interpretation of the policy.

The policy includes some additional cover and provisos:

- ☐ Bursting or overflowing of water pipes apparatus or pipes including damage to such apparatus or pipes.
- ☐ Theft of building fixtures and fittings is covered, except from vacant units or when the entire property is vacant.
- ☐ Accidental breakage or collapse of radio or television aerials or masts is included.
- ☐ Accidental breakage of fixed glass or sanitaryware but excluding damage of a cosmetic nature.
- ☐ Accidental damage, not exceeding an amount as specified in the policy wording, to swimming pool machinery or borehole motors by:
    - Crushing or stress from pressure
    - Sudden electrical or mechanical breakdown
    - Accidental outside causes but excluding the first amount payable of any claim or repair or replacement necessitated by gradually operating causes, or for cosmetic reasons.
- ☐ Escape of oil from any fixed oil-fired heating installation or connected apparatus.

2.2.3 Office Contents

Practice among insurers differs, but generally office contents insurance is suitable for the contents of offices and consulting rooms, but not for those forming part of trade premises. The office contents section of a business policy also includes fire, accident and liability cover.

The following conditions are applicable:

- ☐ Pro rata average applies.
- ☐ There is a simplified list of fire perils, and sprinkler leakage is not excluded.
- ☐ Rent cover is automatic, restricted to the period necessary to make the premises habitable, and to a maximum of 25 % of the sum insured. Cover against prevention of access applies to any premises in the vicinity, damage to which prevents or limits access to the office premises.

There are sections to cover loss or damage to documents, and increased cost of working.

2.2.4 Stock Declaration Conditions

The value of stock may vary considerably throughout the year. If the insured takes out cover for the maximum amount, this sum insured will often be more than needed. On the other hand, insuring for the average value at risk will mean there are times of under insurance, and average will be applicable in the event of loss.

The stock declaration conditions can take care of this. Stock declaration conditions are as follows:

- ☐ A provisional premium is charged, calculated on 75 % of the sum insured.
- ☐ At the end of each month/quarter (as stated in the schedule) the insured gives the insurer a written declaration of the market value of stock and materials in trade. This must be done within 30 days from the month/quarter end, otherwise the insured is deemed to have declared the full sum insured.
- ☐ Claims are settled on the basis of the market value immediately prior to the damage.
- ☐ At the end of each period of insurance, the final premium is calculated on the average sum insured, i.e. the total of the values declared or deemed declared, divided by the number of declarations that should have been made, resulting in an additional or a refund premium.
- ☐ Up to 50 % of the provisional premium is refundable, so the insured is very unlikely to pay more premium than necessary (unless the required declarations were not made).
- ☐ The sum insured is the limit of the insurer's liability, and premium is not receivable on values in excess of this. Any additional premium under the adjustment cannot be more than 1/3 of the provisional premium.
- ☐ These specific conditions apply separately to each item to which stock declaration conditions apply.

The following table shows and example of a stock declaration adjustment.

Sum Insured (maximum at risk)	R800 000

Rate 0.3%		

Provisional premium R800 000 X 0.3% X 75%		R1 800

Monthly declarations

January	R800 000

February	R700 000

March	R650 000

April – No declaration made, so maximum amount used	R800 000

May	R500 000

June		R400 000

July	R550 000

August	R550 000

September	R600 000

October	R700 000

November	R800 000

December – R900 000 was declared, so maximum amount is used	R800 000

Total	**R7 850 000**

Average	R654 167

Premium on R654 167 @ 0,03	R1 962.50

Provisional premium paid	R1 800.00

Additional premium due	R162.50

Table 2.2.1. Example of a Stock Declaration Adjustment

The premium calculation is simple, but there are some additional aspects to be considered.

- ☐ Insurers and intermediaries should follow up outstanding declarations, and if any declaration exceeds the sum insured they should suggest that this be increased immediately.
- ☐ Losses are automatically reinstated. The additional premium for this is separately charged and does not form part of the declaration adjustment.
- ☐ If after the occurrence of damage. it is found that the last declaration is less than it should have been, the amount recoverable under the claim is reduced in such proportion as the amount of the declaration bears to the amount that ought to have been declared or to the sum insured, whichever is the lesser amount. This operates cumulatively with average.

2.3 BUSINESS INTERRUPTION INSURANCE

Also known as business income insurance, business interruption insurance is a type of property insurance. A business whose property has sustained a direct physical loss such as fire damage or a damaged roof due to a tree falling on it in a windstorm and has to close down completely while the premises are being repaired may lose out to competitors. A quick resumption of business after a disaster is essential. That is why business interruption insurance is so important.

There are typically three types of business interruption insurance. A business can purchase any one or combination of these.

- ☐ **Business Income Coverage:** Compensates for lost income if a company has to vacate its premises due to disaster-related damage that is covered under the property insurance policy. Business income insurance covers the profits the company would have earned, based on financial records, had the disaster not occurred. The policy also covers operating expenses, such as electricity, that continue even though business activities have come to a temporary halt.
- ☐ **Extra Income Coverage:** Reimburses the company for a reasonable sum of money that it spends, over and above normal operating expenses, to avoid having to shut down during the restoration period.
- ☐ **Contingent Business Interruption Insurance:** Protects a businessowner's earnings following physical loss or damage to the property of the insured's suppliers or customers, as opposed to its own property.

Damage due to floods, earthquakes and acts of terrorism are generally not covered by standard business property insurance but can be purchased through various markets.

2.4 LIABILITY INSURANCE

Any enterprise can be sued. Customers may claim that the business caused them harm as the result of, for example, a defective product, an error in a service or disregard for another person's property. Or a claimant may allege that the business created a hazardous environment. Liability insurance pays damages for which the business is found liable, up to the policy limits, as well as attorneys' fees and other legal defence expenses. It also pays the medical bills of any people injured by, or on the premises of, the business.

A Commercial General Liability (CGL) insurance policy is the first line of defence against many common claims. CGL policies cover claims in four basic categories of business liability:

- ☐ Bodily injury
- ☐ Property damage
- ☐ Personal injury (including slander or libel)
- ☐ Advertising injury (damage from slander or false advertising)

In addition to covering claims listed above, CGL policies also cover the cost of defending or settling claims. General liability insurance policies always state the maximum amount that the insurer will pay during the policy period.

There are two major forms of liability insurance policies a business can select: 0ccurrence and claims made. Both types of policies have their advantages.

- ☐ **Occurrence Policy**: An occurrence policy covers a business for harm to others caused by incidents that occurred while a policy is in force, no matter when the claim is filed. For example, a person might sue a business in 2010 for an injury stemming from a fall in 1999. The policy that was in place when the incident occurred (i.e. 1999) will apply, even if the company now has a policy in place with higher limits. Occurrence coverage may not be available for some industries or professions.
- ☐ **Claims Made Policy:** A claims made policy covers the business based on the policy that is in force when the claim is made, regardless of when the incident occurred. In the above example, the limits in the policy in effect in 2010 would apply. Businesses with claims made policies can purchase optional "tail coverage." Tail coverage enables a business to report claims after the policy has ended for alleged injuries that occurred while the policy was in effect.

2.4.1 Buildings Combined Section

Because this section covers buildings, it has a liability sub-section covering liabilities in, on, or about the property insured, and arising from the ownership thereof, up to a limit of R1 000 000.

The owner of a building and the land on which it stands has a responsibility to maintain it in a reasonably safe condition. Claims commonly arise from defects such as faulty stairways and railings, or people slipping and falling in the passages, but there could also be damage to other peoples' property. The relationship with tenants depends on the terms of the lease agreement, but this does not apply to visitors and their property.

An insured whose only business is the ownership of a building insured under the combined section will not need a general public liability cover, unless it is felt that the R1m limit is not enough.

The multi-peril policy has a provision stating that the insurers will not be liable for the same happening under more than one section of the policy. This means that the indemnity limit under Buildings combined and that under a public liability section would not be cumulative.

2.4.2 Office Contents Section

There are special sub-sections available to cover loss or damage to documents, the insured's own or belonging to clients, at the office, and legal liability as a direct consequence of this. Liability under contract is excluded, so the cover is against liability arising in delict.

People entrusted with temporary possession of the property of others are liable to compensate the owner for loss or damage to the property. They can avoid liability if they can prove that they took all reasonable care in the circumstances, and the damage occurred in spite of this.

2.4.3 Employer's Liability Section

Under the previous Workmen's Compensation Act, "workmen" were defined as those earning less than a specified annual rate. These employees could claim compensation for occupational injuries and illness from the Workmen's Compensation Fund, so were not allowed to sue their employer.

The Employers' liability section provided cover on claims made basis for liability for occupational injury to employees who were non-workmen. The Occupational Injuries and Diseases Act, which came into operation on 1st March 1994, changed this. Almost all employees fall under the terms of the new Act.

2.5 COMMERCIAL VEHICLE INSURANCE

A commercial auto policy provides coverage for vehicles that are used primarily in connection with commercial establishments or business activities. The insurance pays any costs to third parties resulting from bodily injury or property damage for which the business is legally liable up to the policy limits.

While the major coverages are the same, commercial auto policies differs from a personal auto policy in a number of technical respects. They may have higher limits and/or provisions that cover rented and other non-owned vehicles, including employees' cars driven for company business. Several insurers offer business auto policies geared to owners of small businesses or specific types of businesses.

2.6 OTHER TYPES OF BUSINESS COVERAGES

The other types of insurance that is available for businesses is considered in the subsections following.

2.6.1 Errors and Omissions Insurance/Professional Liability

Some businesses involve services such as giving advice, making recommendations, designing things, providing physical care or representing the needs of others, which can lead to being sued by customers, clients or patients claiming that the business' failure to perform a job properly has injured them. Errors and omissions or professional liability insurance covers these situations. The policy will pay any judgment for which the insured is legally liable, up to the policy limit. It also provides legal defence costs, even when there has been no wrongdoing.

2.6.2 Employment Practices Liability Insurance

Employment practices liability insurance covers, up to the policy limits, damages for which an employer is legally liable such as violating an employee's civil or other legal rights. In addition to paying a judgment for which the insured is liable, it also provides legal defence costs, which can be substantial even when there has been no wrongdoing.

2.6.3 Directors and Officers Liability Insurance

Directors' and officers' liability insurance protects directors and officers of corporations or non-profit organizations if there is a lawsuit claiming they managed the business or organization without proper regard for the rights of others. The policy will pay any judgment for which the insured is legally liable, up to the policy limit. It also provides for legal defence costs, even where there has been no wrongdoing.

2.6.4 Umbrella or Excess Policies

As the name implies, an umbrella liability policy provides coverage over and above a business's other liability coverages. It is designed to protect against unusually high losses, providing protection when the policy limits of one of the underlying policies have been used up. For a typical business, an umbrella policy would provide protection beyond Its general liability and auto liability policies.

If a company has employment practices liability insurance, directors' and officers' liability, or other types of liability insurance, the umbrella could provide protection beyond those policy limits as well. Cost depends on the nature of the business, its size, the type of risks the business faces and the ways the business implements risk reduction.

2.6.5 Key Person Life Insurance

The loss of a key person can be a major blow to a small business if that person is the founder of the business or is the key contact for customers and suppliers and the management of the business. Loss of the key person may also make the running of the business less efficient and result in a loss of capital. Losses caused by the death of a key employee are insurable. Such policies compensate the business against significant losses that result from that person's death or disability.

The amount and cost of insurance needed for a particular business depends on the situation and the age, health and role of the key employee. Key employee life insurance pays a death benefit to the company when the key employee dies. The policy is normally owned by the company, which pays the premiums and is the beneficiary. The monies from key person insurance can be used to buy back shares in a company from the estate of the deceased, pay a head hunting firm to find a suitable replacement and cover costs or expenses while the business adjusts to the loss.

2.6.6 Product Recall

Product liability cover operates only in respect of the damage or injury actually caused by the defective product. Product recall insurance is to cover the cost of retrieving products considered or suspected to be dangerous from the market place, before harm, or further harm, can result.

We often read that a particular model of car has been recalled for modifications. Other examples include Perrier (mineral water suspected of being contaminated), Tylenol (pharmaceutical tampered with), and Coca-Cola in Belgium (cans contaminated).

There are expert underwriters specializing in this business, and now cover can also be bought for:

- ☐ Extortion (somebody threatens to sabotage the product)
- ☐ Loss of profit due to the recall
- ☐ Loss of market share, and loss of image
- ☐ The cost of the product itself.
- ☐ Pollution and Environmental Impairment (EIL)

There are social and legal problems associated with pollution. There is stricter legislation than in the past, and the general concept that the "polluter pays". Pollution is not always "sudden and accidental", as provided in the ordinary liability wording.

A wider form of insurance protection is known as environmental impairment liability, or EIL. This is intended for normal injury or property damage claims as well as impairment or interference with any other right or amenity protected by law, but is not meant to cover deliberate pollution.

2.6.7 Inland Marine and Ocean Marine Insurance

Inland marine insurance covers bridges and tunnels, goods in transit, movable equipment, unusual property and communications-related structures as well as expensive personal property. Ocean marine insurance provides coverage on all types of vessels, for property damage to the vessels and cargo, as well as associated liabilities

2.6.8 Medical Malpractice Insurance

Medical malpractice insurance covers facilities, doctors and other professionals in the medical field for liability claims arising from the treatment of patients.

2.6.9 Surety and Fidelity

Surety bonds provide monetary compensation in the event that a policyholder fails to perform certain acts such as the proper fulfilment of a construction contract within a stated period. Surety bonds are usually purchased by the party that has contracted to complete a project. They are required for public projects in order to protect taxpayers. Fidelity bonds, which are usually purchased by an employer, protect against losses caused by employee fraud or dishonesty.

2.6.10 Burglary and Theft and Boiler and Machinery Insurance

Burglary and theft insurance covers the loss of property, money and securities due to burglary, robbery or larceny. Boiler and machinery insurance is also known as mechanical breakdown, equipment breakdown or systems breakdown coverage. Among the types of equipment covered by this insurance are heating, cooling, electrical, telephone/communications and computer equipment.

2.6.11 Crop Insurance

Crop-hail insurance is provided by the private market and covers just hail, fire and wind. Federally sponsored multiple peril crop insurance covers other causes of loss and is serviced by the private market but subsidized and reinsured by the federal government.

2.6.12 Warranty Insurance

Warranty insurance coverage compensates for the cost of repairing or replacing defective products past the normal warranty period provided by manufacturers.

2.7 PACKAGED POLICIES

Commercial insurers sell coverages separately and/or offer policies that combine protection from most major property and liability risks in one package. Package policies are created for types of businesses that generally face the same kind and degree of risk.

2.7.1 Packages for Small Businesses

Smaller companies often purchase a package policy known as the Business Owners Policy (BOP). A BOP is recommended for most small businesses (usually 100 employees or less), as it is often the most affordable way to obtain broad coverage. BOPs are "off the shelf" policies combining many of the basic coverages needed by a typical small business into a standard package at a premium that is generally less than would be required to purchase these coverages separately.

Combining both property and liability insurance, a BOP will cover a business in the event of property damage, suspended operations, lawsuits resulting from bodily injury or property damage to others, etc. BOPs do not cover professional liability, auto insurance or health and disability insurance.

Small businesses will need separate insurance policies to cover professional services, vehicles and employees.

2.7.2 Commercial Multi-peril Policies

Larger companies might purchase a commercial package policy or customize their policies to meet the special risks they face. Commercial multi-peril policies, often purchased by corporations, bundle property, boiler and machinery, crime and general liability coverage together. Larger firms employee a risk manager to help determine the company's exposure to certain risks.

The policy covers all risks except the risk generally excluded. Damage or loss due to riots, war or nuclear is generally excluded from these policies.

2.7.3 In-Home Business Policies

There are several insurance options designed to address the special needs of home businesses.

- ☐ **Homeowners Policy Endorsement:** Homeowners may be able to add a simple endorsement to their existing home owners' policy to increase coverage.
- ☐ **In-Home Business Policy:** An in-home business policy provides more comprehensive coverage for business equipment and liability than a homeowners' policy endorsement. Many insurance companies offer insurance policies specifically tailored to small business.
- ☐ **Businessowners Policy (BOP):** The home business might be eligible for The Businessowners Policy (BOP), see above. The key to whether a business owner is eligible for a BOP is the size of the premises, the limits of liability required, the type of commercial operation it is and the extent of its off-premises servicing and processing activities. A BOP, like an in-home business policy, covers business property and equipment, loss of income, extra expense and liability; however, the BOP provides these coverages on a much broader scale.

2.8 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.

2.8.1 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

- ☐ 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

2.8.2 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.

2.8.3 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 2.8.1

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	his 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.

Table 2.8.1. Different Coupons

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.

Each of these coupons 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) Contract Works and/or Construction Plant

The Construction coupon works in a similar way to the Material Damage coupon. It is attached to an underlying Contract Works or Construction Plant policy.

Cover can be for a "specific" contract or, on an annual policy, for "several" contracts.

The SASRIA limit of R300 000 000 here applies to any one contract site, where only one contractor is involved. This limit is amended to R350 000 000, as an annual aggregate limit, where more than one contractor is involved.

As you read through the coupon/schedule, please also have a Contract Works and Construction Plant policy handy for reference purposes.

At the same time, you should read through the SASRIA regulations on Contract Works coupons to pick up additional and necessary information.

III) Project Delay Policy

This policy provides "advanced standing charges" cover between the scheduled commercial launch/opening date of a construction project (which project is insured under a SASRIA Construction coupon), and the actual (delayed) launch date, where the delay has been due to the operation of a SASRIA peril during the construction

period.

This means that the expected income from the completed project is delayed, while ongoing budgeted "standing charges" of the delayed operation have to be paid out.

SASRIA's liability under this policy is identical to that stated in the SASRIA Construction coupon above.

IV) 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.

V) Marine Insurance

Hull Insurance

This is for the ship or boat itself, together with the liability risk. The property insured could be anything from small pleasure craft (sometimes insured in the personal lines), to "tailor-made" policies for super tankers. This aspect is unlikely to concern the ordinary commercial underwriter, but brokers' offices sometimes get enquiries for insurance of sea-going yachts and special craft.

Cargo Insurance

If you live a long way from the sea, you may think that marine insurance does not affect you, but this may not be the case. Most of the imported goods you see in the shops were covered by marine cargo insurance, the same with our exports to other countries.

Often, this involves not only the actual voyage, but "Warehouse to Warehouse" transit, right up to the importer or distributor's store, and involving long inland "hauls".

Some insurers handle all their "transit" business in the marine department, rather than under the Goods in transit.

Fire, all risks, and Goods in transit covers are specially worded to avoid overlap or contribution with marine insurance, especially as the conditions and scope of cover are so different.

When taking over cover after a marine transit, as when imported goods are transferred to your client's premises, it is important that someone first check the consignment for damage or shortages that may have occurred on the voyage.

2.8.4 Standing Charges Claim

The SASRIA Standing Charges policy is different in that it is a "stand-alone" policy not attached to a specific underlying policy. It is a much lengthier and more detailed document.

As with all consequential loss policies, however there has to be an underlying material damage insurance in force.

The following three documents is needed for an insured Standing Charges claim:

- ☐ SASRIA Material damage coupon
- ☐ SASRIA Standing charge policy
- ☐ Underlying policy

A further feature of the Standing Charges policy (SC) is that it only covers the "standing charges" (fixed costs) of the insured's business and not the "net profit" thereof.

There are other insurance facilities in the market place, known as "wrap-around policies", to obtain cover for the net profit element and for additional premises such as suppliers or customers.

2.8.5 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.

2.8.6 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.

- ☐ **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.

2.8.7 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.

Glossary of Terms

Accident:	An unforeseen and unintended event or occurrence resulting in an undesired consequence such as loss, damage and liability.
Accountable:	Liable to being called to account; answerable.
Amend:	To change
Ascertain:	To make certain
Assessment:	The act of appraisal; the valuation of property or damage to property
Asset:	Valuable item that is owned by an individual person or company. It can include personal possessions, stocks cash, fixed property, vehicles and investments.
Average:	This is a principle of insurance that has the effect of reducing a claim payment where underinsurance has been shown.
Bankrupt:	When liabilities exceed assets
Betterment:	The added value of the improvement to an insured property when it has been repaired, replaced or rebuilt following loss or damage.
Bordereau:	A detailed schedule, that lists risks, values and premiums
Capacity:	The maximum amount that can be retained on a risk; the legal status of persons to enter into a contract
Catastrophe:	An event causing losses of insured property above a specific monetary limit and affecting a substantial number of policyholders and insurers
Common Law:	The body of law developed as a result of custom and judicial decisions, as distinct from the law laid down by legislative assemblies
Compensate:	To pay for something lost or damaged
Compliance:	Readiness to conform or agree to do something
Comprehensive policy:	A policy covering a wide variety of perils
Consent:	To agree
Consequence:	Something that logically or naturally follows from an action or condition; the relation of a result to its cause
Consequential loss:	A loss directly arising from another loss. The term is used to describe the class of business also known as loss of profits or business interruption insurance.
Contribution:	A payment for a special purpose; payment to a common fund as by an insured to the risk pool; the principle whereby two or more insurers covering the same risk contribute proportionately to any losses
Damages:	An amount of money awarded by a court as compensation for injury or loss
Disclosure:	Revealing all the facts relevant to an insurance contract to the insurer or intermediary, and as required by FAIS
Endorsement:	Written evidence of some alteration to a policy of insurance
Exposure:	The possibility of loss or damage

Excess:	That first part of a loss for which the insured is liable
Finance house:	A business enterprise that loans money to individual people or to companies against collateral, especially to buy items on hire purchase
Fortuitous:	Happening by chance
Fraud:	Deception intended to benefit those deceiving
Frequency:	How often something happens
In lieu:	Instead of or as a substitute
Incident:	A definite occurrence or event; an occurrence or event that interrupts normal procedure
Indemnity:	The placing of the insured, in the same financial position after a loss that he was in, immediately prior to the occurrence
Insurable interest:	A demonstrable interest in something covered by an insurance policy, the loss of which would cause deprivation or financial loss. Insurable interest must be shown whenever somebody takes out an insurance policy or makes a claim; the principle that requires an insured to have a legally recognised relationship with the item to be insured
Insurance cover:	An arrangement by which a company gives customers financial protection against loss or harm such as theft in return for payment of premium
Instalment:	One of a number of successive payments
Insurance policy:	A document that is evidence of a contract of insurance
Insured:	The insured is a person who has insurance
Insure:	A person or company licensed to provide insurance to the public
Intermediary:	A person who arranges insurance on behalf of another
Landlord:	One that owns and rents out land or buildings
Liability:	Legal responsibility for financial obligation, such as damages
Limits of acceptance/liability:	The maximum amount accepted by an insurer in respect of a specific risk
Litigation:	Legal proceeding in a court to determine and enforce legal rights
Loading:	Those elements added to a premium to allow for additional risk exposure
Loss:	An undesired event or the amount of a claim made by an insurance policyholder
Loss adjustor:	An independent, qualified person who assess the size, or value of a loss, on behalf of the insurer, but who may also be employed by an insured to look after his interest in a loss settlement
Market value:	The price at which an asset can be sold or bought at any specific time
Material facts:	Anything that would affect the judgement of an underwriter in accepting or deciding the terms of risk
Misrepresentation:	A false statement of a material fact that can be innocent or fraudulent
Negligence:	A civil wrong causing injury or harm to another person or to property as the result of failing to provide a proper or reasonable level of care
New for old:	Insurance where the replacement value of the property that has been lost or damaged is payable without deduction for depreciation (is replaced at current purchase price)

Non-disclosure:	The failure to disclose a material fact or circumstance
Nuclear fission:	Nuclear reaction in which a nucleus splits into smaller parts with a simultaneous release of energy
Offer:	The communication of the proposed terms of a contract by one party to another
Peril:	A peril is the possible cause of a loss
Policy schedule:	The list of personal details of the insured and the subject matter of the insurance in a policy
Premium:	The money paid by the insured to the insurer for cover as specified in the insurance policy. It may also contain terms and conditions additional to the policy wording.
Premium rate:	The price per unit of insurance, based on a percentage of value
Pro rata premium:	The premium based on the length of time for which the insurer was actually on risk
Probability:	The chance of an event occurring
Proximate cause:	A direct cause of a loss which is uninterrupted by any other event
Rate:	The sum charged per unit at risk by which the premium is calculated, often shown as a percentage.
Regulation:	A principle, rule or law designed to control or govern conduct
Reinstatement:	The making good of damaged property; the restoration of the sum insured after settlement of loss on payment of an additional premium
Reinsurance:	When an insurance company purchases insurance for the risks they cover in order to share the financial burden or loss
Renewal:	The process of continuing insurance for a further period after the first or current period of cover has ended
Replacement cost:	The value of property as indicated by the current new purchase price of a similar article
Representative:	An individual who represents a licensed Financial Services Provider in providing either advice or an intermediary service to the public
Retention limit:	The maximum liability that an insurer wishes to keep for his own account in respect of a particular risk
Risk:	The subject matter of an insurance contract; the possibility of a loss against which insurance is taken out
Risk management:	The business discipline applied by large commercial and industrial organisations to manage those risks that can cause losses
Risk transfer mechanism:	Risk is taken away from one person (the insured) and given to another (the insurer)
Salvage:	Whatever is recovered of an insured item, or part thereof, on which a claim has been made
Self-insurance:	Insurance that a business organisation finances internally by establishing a fund to meet losses
Severity:	How serious something will be when it does happen
Short-term Insurance:	Insurance that operates on an annual basis, and which may be terminated by the insurer or the insured

Speculative:	A financial asset or group of assets, or risks, with uncertain returns. The greater the degree of uncertainty the more speculative the asset or risk (such as betting on a racehorse in the stock exchange)
Standard construction:	A building erected on foundations, constructed of bricks, stone, steel, with a concrete, tile or steel roof
Statutory:	Enacted, regulated or authorised by statute
Subrogation:	The right of one party to stand in the place of another and assume the legal rights against a third party
Sum insured:	The monetary limit of the insurer's liability under a policy; or the insured value of an item or group of items
Tenant:	One that pays rent to use or occupy property owned by another
Third party:	A person who is not a party to a contract of insurance
Turnover:	The income received, or business transacted during a given period of time
Underinsurance:	Insurance for a sum insured less than the value of the risk
Underwriter:	A person who makes decisions on whether or not to accept insurance risks, and if so, on what terms
Valuation:	The act of determining the value or price of an item
Void contract:	A contract that cannot be enforced by either party
Voidable contract:	A contract that either party can choose not to enforce
Warranty:	A condition that must literally be complied with, literally and completely