Module # 1 – Component # 1

Regulatory Examinations Preparation
Sort-term Insurance

Personal-Lines

Determine the Client's Need for Insurance

Tasks for this Course

1	Determine the client's need for insurance.
2	Match the client's need to the relevant product/s.
3	Apply underwriting criteria.
4	Draft/request a quotation for insurance.
5	Agree to terms and conditions of cover.
6	Issue policy / fulfilment document.
7	Provide a service to the client/maintain the policy/client retention.
8	Process a claim.
9	Recovery / mitigation of losses.

Glossary of Terms

Accident: An unforeseen and unintended event or occurrence resulting in injury or damage to property or persons

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: An item which can include personal possessions, fixed property and vehicles

Average: This is a principle of insurance that has the effect of reducing a claim payment where underinsurance is discovered

Bankrupt: When liabilities exceed assets

Betterment: The added value of the improvement to an insured property when it has been repaired or rebuilt following loss or damage

Bordereaux: A detailed schedule, which lists risks, values and premiums

Capacity: The maximum amount that can be retained on a risk; the legal capacity 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 somebody for something lost or damaged

Compliance: Readiness to conform or agree to do something

Comprehensive policy:

Consent: To agree A policy covering a wide variety of perils

Consequence: Something that logically or naturally follows from an action or condition; the relation of a result to its cause; contribution A payment for a special purpose; payment to a common fund as by an insured to the risk pool

Damages: An amount of money awarded as compensation for injury or loss

Disclosure: Revealing all the facts relevant to an insurance contract

Endorsement: Written evidence of some alteration to a policy of insurance

Exposure: The possibility of loss caused by an outside source

Excess: That part of a loss for which the insured is financially 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 as 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 a payment premium

Installment: 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

Insurer: A person or company providing 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: 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 instance 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 judgment of an underwriter in accepting or deciding the terms of risk

Negligence: A civil wrong causing injury or harm to another person or to property as the result of doing something or 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

Nuclear fission: A nuclear reaction in which a nucleus splits into smaller parts with a simultaneous release of energy

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

Proximate cause: A direct cause of a loss which is uninterrupted by any other event

Regulation: A principle, rule or law designed to control or govern conduct

Reinsurance: When an insurance company purchases insurance for the risks they cover

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

Salvage: What is recovered from an insured loss

Severity: How serious something will be when it does happen

Short-term Insurance: Insurance that operates on a year-to-year basis, and which may be terminated by the insurer or the insured

Speculative: An asset or group of assets with uncertain returns. The greater the degree of uncertainty the more speculative the asset.

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

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

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

Valuation: The act of determining the value or price of an item

Knowledge Criteria

- ☑ Explain the principles of insurance, including the concepts of insurable interest, insurable risk, duty of disclosure, indemnity, average, compensation, subrogation, proximate cause and contribution.
- ☑ Explain policy wording including the concepts of excess, underwriting criteria and types of perils.
- ☑ Describe the benefits offered by relevant products.
- ☑ Explain the different lines of insurance.
- ☑ Explain the different types of cover (including self-insurance) available, and the implications and benefits thereof.
- ☑ Describe client-specific contractual obligations, such as HP agreements and tenant liability.

Skills Criteria

- ☑ Ask relevant questions relating to product offering in order to determine the client's need for insurance.
- ☑ Gather relevant information by completing a questionnaire where applicable.
- ☑ Establish the insurable interest, previous claims loss history, previous insurance and personal financial status of the client.
- ☑ Capture relevant information.
- ☑ Explain and apply principles of insurance.
- ☑ Identify the areas of risk to which the client is exposed

Purpose

This Component provides the individual with fundamental insurance principles and outlines the process by which a representative would determine the short-term insurance need of a client.

The Principles of Insurance

Before one can begin to determine the insurance needs of a client, there are some basic insurance principles that need to be understood. These principles are outlined below.

1.1.1 Insurable interest

Insurable interest is the legally recognised financial relationship between the insured and the financial loss that he suffers following a loss. One can insure only those things with which one has a legally recognised financial relationship, for example, one can insure one's house against fire because if it burns down one will suffer a financial loss.

- ☑ Legally recognised relationships
- ☑ Owners and joint owners of property;
- ☑ Mortgagees and mortgagors;
- ☑ Bailees (a person holding another's goods and having a duty of care for those goods);
- ☑ Agents;
- ☑ Executors and trustees who can insure the property for which they are legally responsible;
- ☑ The relationship with your spouse. Husbands and wives have unlimited insurable interest in each other's lives. (Other examples exist for long-term insurance.)

1.1.2 Insurable risk

In order for a risk to be insured, there are certain basic requirements that must be met. These requirements are as follows:

- ☑ The cause of the loss must be accidental or fortuitous;
- ☑ There must be insurable interest; and
- ☑ The risk must not be intended for personal gain by fraudulent means.

1.1.3 Duty of disclosure

Disclosure means to make known, reveal or expose to view, all of the information that the client needs to know about the financial product and the terms and conditions of the product he is purchasing. The obligation to disclose begins as soon as the negotiation for the insurance contract begins.

It is therefore legislated, through the Policy Protection Rules as well as the Financial Advisory and Intermediary Services (FAIS) Act that various aspects of financial arrangements are made known to clients by Representatives who sell them financial products.

In addition, the client also has a duty to disclose all factors that might influence the risk for which they are seeking insurance. Any form of non-disclosure on behalf of either party would constitute a breach of the terms and conditions of the policy.

1.1.4 Indemnity

Indemnity is when a person's financial position is restored, as a result of insurance, back to what it was immediately before the person experienced a loss. Indemnity and insurable interest are closely linked, as the principle of indemnity means that the insured cannot recover any amount exceeding the extent of his insurable interest.

1.1.5 Average

Average is a concept used by insurers to deal with underinsurance. Underinsurance occurs when an item is insured for less than its market value.

It is important that the insured must pay for his share into the insurance pool. The premium that he pays is based on the amount of financial value at risk.
If the insured understates the insured value, he will be paying an incorrect amount of premium and therefore be underinsured. Should he then have a claim, the principle of average will be applied.

1.1.6 Compensation

In short-term insurance, personal accident and personal liability are examples of compensation policies. In the event of a loss the insured is paid an agreed amount of money. This differs from indemnity policies, where insured items are either restored, repaired or replaced.

1.1.7 Subrogation

Subrogation is the legal provision under common law by which one party, usually an insurer, stands in the place of the insured, so as to have the benefit of the insured's rights and remedies against a third party. More detail on how subrogation is applied is dealt with in Module 9.

Subrogation therefore means the right of one person to take over, or assume, the legal rights of another person.

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Example:

Elias is aware of how important insurance is. He has thus taken out insurance to cover his new car.

One morning on his way to work, a car collides with his car. As a result of the collision, caused by the negligence of the other driver, Elias' car is badly damaged. There is R50 000 worth of damage to the car.

Elias' insurer arranges for the repair of his car. The insurer now has the right through a process of subrogation to recover the monies paid, from the other driver's insurer, or the driver himself where the driver is uninsured.

The subrogation clause states that insurers have the right to assume the insured's right to claim against the third party. This means that:

- ☑ the insurer may act as though they were the insured; and
- ☑ the insurer may begin acting before they pay out the money for repairing the damages to Elias's car. (See Sec. 9.2.1)

1.1.8 Proximate cause

In an insurance contract, it is necessary to state the perils that are covered or excluded, so that all parties to the contract know exactly what perils are covered.

It is necessary, therefore, to examine the cause of loss in some detail because the insurer is only liable for losses "proximately" caused by an insured peril.

Definition:

Proximate cause means the active, efficient cause that sets in motion a train of events that bring about a result, without the intervention of any force started and working actively from a new and independent source.

Examples:

- ☑ Damage is caused by smoke resulting from a fire, the fire is the proximate cause of the damage caused by the smoke;
- ☑ Damage caused by water used to extinguish a fire is proximately caused by fire;
- ☑ A person sustains accidental injury and is taken to hospital, where he contracts a disease from a patient in the next bed and dies from the disease, the accident is not the proximate cause of death;
- ☑ A wall is weakened by a motorcar that collides with it and the wall in its weakened state is subsequently blown down by a high wind, the proximate cause of the collapse of the wall is the wind (and not the impact of the motorcar).In each of above the original incident is the proximate cause of each incident.

1.1.9 Contribution

Where the same risk is insured by two different insurers, contribution will apply in the event of a claim, in respect of that particular occurrence.

> "... the right of an insurer to call upon other insurers similarly (though not necessarily equally) liable to the same insured to share the cost of an indemnity payment."

Insurance is intended to indemnify the insured in the event of a loss. However, if there is more than one policy covering the same item, the policy's condition of contribution is applied. The formula applied for contribution is discussed in more detail in Component 8.

Contribution in many instances could arise from clients not clearly understanding or being unaware of what they are covered for, which results in them acquiring duplicate cover.

The representative needs to be very careful in such instances to check for these types of situations as more often than not, insurers are tending to state that where more than one policy exists for the same risk, such insurer will not pay in the event of a claim. This could result in a client being underinsured and intermediaries need to guard against this.

Explain Policy Wording

1.2.1 What is contained in the policy wording?

The policy wording consists of a number of sections, each serving a different purpose.

These sections are the following:

- ☑ **The heading**

This gives the full name of the insurer, address of the insurer's head office, details of the complaints and compliance departments, as well as the financial services provider (FSP) number and all details of any other product suppliers that may be party to the policy for certain risks or sections thereof (such as an underwriting manager or intermediary).

- ☑ **The preamble**

This details the basic essentials and components of the contract. This clause usually states the payment terms of the agreed premium to be paid by the insured, and acknowledgement that the details supplied in the proposal form constitute the basis of, and are incorporated in the contract.

- ☑ **The operative clause (these are standard printed clauses)**

Details the hazards and perils for which cover is provided and for which losses the insurer is prepared to make payment to the insured.

- ☑ **The exceptions**

This details the risks or losses that are not covered by the terms and conditions of the policy.

- ☑ **The general conditions**

These are rules governing the application and interpretation of the contractual conditions as a whole (for example a claim will only be processed if all the premium payments are up-to-date, or time limits for notification of claims).

- ☑ **The policy schedule (this is the part that differs in each policy and contains the client's details)**

This groups together the various features that are unique to the particular insurance relating to the:

- ☑ insured's personal details

- ☑ description of the risks insured
- ☑ amount and nature of cover required
- ☑ premium to be paid by the insured
- ☑ applicable excesses

- ☑ **The specification**

This applies to special risks which are not specifically covered by the operative clause and to which a premium loading, restrictions or additional excesses are often applied, such as a thatched roof.

- ☑ **The endorsement**

These are clauses attached to a policy which may either restrict or extend the general terms and conditions of the cover or which may reflect changes in circumstances or the nature of the risks, such as additional security measures to reduce risk, or the acquisition of additional assets which increases the sum insured.

1.2.2 Excess

An excess, or "first amount payable" as it is sometimes called, is an amount of money that the insured must pay each time there is a claim. This helps to avoid small claims and provides the insured with a reason to prevent losses.

These may be voluntary or compulsory.

Many insurers offer a discount in premium if the policyholder agrees to bear a voluntary excess in addition to the stated excess.

1.2.3 Underwriting criteria

Underwriting criteria relating to the target market

The general underwriting criteria relate to the type of business that is underwritten by a particular insurer.

This relates to the chosen field of the company and type of product, whether for general insurance or a niche market, which the insurer is willing to offer. Examples of these may include travel insurance, a motor-only policy, or an agricultural insurance product.

These underwriting criteria would generally include the following:

- ☑ Limits of acceptance
- ☑ Types of insurable items

Underwriting criteria relating to the nature of the risk

The nature of insurance is such that the contributions for similar risks are pooled together by the insurer. The underwriter has to manage the pool as effectively and profitably as is possible. In order to do so, the underwriter will assess the risk each person brings to the pool. Two main aspects of hazards are considered when this assessment takes place, namely physical and moral hazards.

Examples of physical hazards:

Property loss or damage

The construction of a building may present a physical hazard, such as a building constructed with wood would be a greater fire risk than a building constructed with bricks.

Motor
People who use their vehicles for business travel and are on the roads more frequently than people in administrative roles, whose cars are parked in a secured locked garage for most of the day.

Examples of moral hazards:

One example of a moral hazard is that there is a belief that once an item is insured the person no longer needs to exercise care in maintaining and protecting the insured item.

Another example is the person who regularly claims as a method of recovering monies paid in premiums, as a type of investment

All of the above examples have a greater risk impact to the insurer.

This causes the underwriter to consider additional risks and consequences for these greater exposures. He then considers which of these greater risks he is willing to accept, and imposes additional terms and conditions and premium for insuring them. The identified additional risks and specific terms and conditions then become the underwriting criteria.

Examples:

The increased fire risk that a thatched roof presents, results in a loading of premium and additional preventative measures such as a lightning conductor, for the insured.

The increased risk that the age of a driver may present will result in an additional excess and/or a higher premium being imposed.

1.2.4 Types of perils, hazards and risks

Peril vs hazards

A peril is something that causes a loss and a hazard is something that influences the damage caused by a peril, for example, accident damage to your car is a peril, but the heavy traffic and dangerous road conditions are hazards.

Examples:

Peril	**Hazard**
A ***fire*** causing a building to burn down	The building had a thatch roof
A ***storm*** which causes a tree fall on the building	The tree was old and unstable
A ***crime*** incident	There were no burglar bars on the windows
A ***motor*** accident	Dense traffic on wet roads

Moral and physical hazards

Hazards can either be physical or moral. Physical hazards relate to the physical environment, for example, keeping flammable liquids in a building, and, as explained above, heavy traffic and dangerous road conditions.

Moral hazards relate to attitudes and behaviour of people, especially the tendency of individuals to alter their behaviour because they are insured.

Examples of moral hazards are:

- ☑ Dishonesty - a person who claims fraudulently is a worse moral hazard than an honest person.
- ☑ people who inflate claims in the belief that it will result in a fair
- ☑ Settlement by insurers.
- ☑ People who do not believe that it is wrong to cheat insurers.
- ☑ carelessness - a driver who drives under the influence of alcohol increases the chances of an accident.

It can be difficult to separate moral and physical hazards, such as the manner in which the car is driven or maintained and not the car itself.

Fundamental risk

Risks can further be divided into particular and fundamental risks. Fundamental risks are generally impersonal in origin and affect large parts of society or even the population of the world, and are regarded as commercially uninsurable. However, in some cases insurance is available for risks that are outside the control of a person or a group of people. These risks normally affect a large number of people and the loss is often catastrophic.

Examples of catastrophic events:

> Earthquake, tsunami, war, riot, drought/famines, economic recession and the resulting unemployment

Fundamental risks can be caused by social, political or natural factors.

Suppose, for example, that a family is planning a holiday to Egypt and a few days prior to their departure there is a terrorist attack at the pyramids just outside of Cairo. There is nothing they can do to prevent a civil unrest or war in the country, but they must take into account the risk of this happening and ruining their holiday. Whilst there is an impact on the family's trip, the severity of the impact would differ depending on whether they are in Egypt at the time, or still in South Africa awaiting their departure to Egypt.

Particular risk

A particular risk is one which affects individuals and which arises from individual causes, which can be identified.

Particular risks are personal in origin and affect individuals or small groups, for example, fire, theft, or vehicle accidents.

Example:

> Thieves break into your home and goods are stolen. This is a particular risk because it affects only you and your family and not society as a whole. In general, risks that are not particular fall into the fundamental class.

Speculative risk

Speculative risks, on the other hand, are normally taken in the hope of some gain. For example, it is not possible to insure the possible winnings that one hopes to receive from gambling.

It is, however, difficult to be dogmatic about this, as practice is changing and the division between pure and speculative are becoming more blurred as time passes. Take the case of the credit risk, which can be seen as a speculative risk. The goods have been sold on credit in the hope that a gain will result, but a form of credit insurance is available which will meet some of the consequences should the debtor default. Very strict underwriting criteria are applied to this type of risk, because of the nature of the risk.

However, insurance is not normally available for those risks where the outcome can be a gain. Speculative risks are entered into voluntarily, in the hope that there will be gain. There would be very little incentive to work towards achieving that gain if it was known that an insurance company would pay up, regardless of any effort by the individual. Using the terminology of hazard, we could say that there would be a very high risk of moral hazard.

We should, however, be clear that the pure risk consequences of speculative risks can be insured against and that more and more people involved in risk and insurers are being asked to handle speculative risks.

An example of a speculative risk that becomes a pure risk as a consequence is bad debt. Profit is made on a venture or sale, which is a speculative risk. The subsequent collection of the debt or the non-collection can result in a loss, thus fitting the definition of pure risk.

The pure risk consequences of speculative risks are certainly insurable, but not the speculative risk itself. Take as an example the marketing of a new line in clothing. The risk of the new line selling is clearly speculative. It is a risk knowingly entered into in the hope of financial gain. This, after all, is the very essence of business activity.

However, the risk that the line will not sell is not the only risk to which the enterprise is exposed; the factory in which the garments are to be made could be damaged, designs could be stolen, and suppliers of essential materials could have fires or other damage resulting in them being unable to supply the raw material. All of these risks are pure risks that are insurable, but they arose directly from the decision to take the speculative risk of making the new line of clothing, in the first place.

Pure risk

Pure risks arise due to human "error" or actions, or natural phenomena. These are risks that may or may not happen, for example theft, liability, motor accident or an electrical short circuit and are generally insurable.

Example:

When you drive to work in the morning you either have a car accident or you don't.

A lightning strike occurs that impacts on all the electrical appliances in your house, but not the house next door.

Insurance is mainly concerned with pure risks.

Conclusion

In general, an insurable risk must be financially quantifiable in monetary terms.

1.2.5 Market value, retail value and replacement value

Indemnity can be on a market, retail or replacement value basis.

In the event of the insured being covered for replacement value, he is entitled to receive the replacement value of any item lost or damaged beyond repair. If the sum insured is lower than the replacement value the condition of average will apply. This applies specifically to the house owner and householder sections of a policy.

In the all risks section the sum insured will be paid for specified items, whereas unspecified items will be subject to the applicable limits.

Replacement value for motor may be paid depending on the age or mileage of the vehicle as specified in the terms and conditions of the policy. Thereafter retail or market value will apply as specified in the terms and conditions of the policy.

Benefits Offered by the Relevant Products

1.3 Describe the benefits offered by the relevant products

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

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

1.3.1 No Claim Bonus

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

These benefits may vary from one insurer to another in respect of the amount of premium discount. There are two main methods of calculation such as;

- ☑ a claims free group - usually 0 to 5 (or 6) or
- ☑ a percentage discount, from 0% to 60%.

The claims free bonus is dependent on your previous claims experience and is at the discretion of the particular insurer. It is therefore possible for the level of the bonus to vary at inception of the policy. The purpose of the No Claims Bonus system is to reward those policyholders who do not claim.

In some ways, it has become a "double-edged sword" in that when a policyholder does incur damage or a loss:

- ☑ the insured has to carefully consider whether or not to claim
- ☑ the insured will have to carry an excess
- ☑ lose his no claims bonus or have it reduced.

The effect is that policyholders do not claim for small "nuisance" amounts, which are administratively expensive for insurers.

One must remember that this discount is a No Claims Bonus, not a No Blame Bonus, therefore even when the accident is clearly not the fault of the policyholder; he will lose his no claims bonus should he claim for the damages. Of course, an attempt will be made to recover the costs from whoever caused the damage and, if successful, the insurers may reinstate the policyholder's no claims bonus at their discretion.

1.3.2 Cash back bonuses

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

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

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

1.3.3 Car hire

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

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

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

1.3.4 Road Assist, Call Centre Assist

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

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

The Different Line of Insurance

1.4.1 Personal lines

Personal lines insurance policies are standard, general policies bought by individuals to cover their personal assets.

These policies cover:

- ☑ house owners insurance (buildings)
- ☑ householders insurance (contents)
- ☑ personal motor
- ☑ all risks insurance
- ☑ personal computers
- ☑ small craft
- ☑ personal accident insurance
- ☑ personal liability insurance

It is usual for these policies to provide different types of cover under a single policy, usually with a single combined premium for all of the sections (payable annually or monthly). This is known as a personal lines "multi-peril" policy.

It must be emphasised that each company has different personal lines wordings with varying limits, and as an insurance technician, you must be able to use and interpret your own company's wording. This is even more important for brokers, who may deal with several insurance companies.

1.4.2 Commercial lines

Commercial insurance policies cover business and commercial risks of businesses.

These policies cover the classes of:

- ☑ fire
- ☑ accident
- ☑ liability
- ☑ accidental damage
- ☑ motor
- ☑ business interruption
- ☑ solvency guarantees and court bonds and some other less common situations.

These types of policies are also available as commercial multi-peril policies.

1.4.3 Niche Markets

Niche markets are those for which certain insurers provide cover for limited specialised risks.

In the personal lines environment, particular niche markets would be the following:

- ☑ Horse and rider cover - this policy is designed to provide cover for riding horses, ponies, show jumpers and hunters. It also provides personal accident cover for the rider.
- ☑ Pleasure craft insurance - is designed to cover boats used for pleasure and not business purposes. This cover is also not for the large ocean-going yachts owned by millionaires, but rather the dinghy or small sailing boat seen on dams and coastal waters.
- ☑ "Bank assurance" is a term used to describe the combination of insurance and banking principles which banks market to their clients.

The Different Types of Cover, Implications and Benefits

1.5.1 Motor - third party and/or liability cover

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

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

1.5.2 Third party fire and theft

Third party fire and theft (TPFT) has the same level of cover as third party insurance, however, it also has the additional cover in the event of a fire or theft of your vehicle. TPFT insurance is normally only slightly more expensive than a third party policy.

1.5.3 Motor - comprehensive cover

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

It is also common for an insurer to add a hired vehicle, mechanical breakdown, and in some cases medical expenses, for an additional premium. Should the insured suffer a loss or damage to his vehicle a hired vehicle can then be arranged for the duration of the repair or replacement of the insured vehicle. This cover is normally restricted to a 30-day rental period.

There are, however, some exceptions to comprehensive cover highlighted below.

Exceptions

Loss or damage:

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

1.5.4 Statutory cover

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.

1.5.5 Home Worker's Cover

There are large numbers of people who work from home, either for a limited number of hours or on a fulltime basis. There are more and more houses with signs outside advertising some kind of business.

For years many people have earned either their total income, or supplemented their income, by selling direct marketing products, or starting consulting businesses from home. Many of them have had stock of the products stored at their homes and if there had been a fire or other kind of loss, these products would not have been covered in terms of their householder's policy. Many of them, even today do not realise this and the average person working from home, has no cover for business articles at their home - whether it be stock, office machines or office documents.

Today the average office worker could, in theory, work from home. With a computer and Internet technology, they could save hours of travelling by emailing completed work through to the main office.

The advantages are fairly obvious and with the change in business methods we will probably see more and more people setting up small businesses, or working for their employer, at home.

How has insurance reacted? The normal domestic policy wordings quite clearly define the dwelling as:

"the buildings and landlord's fixtures and fittings of the private dwelling house and domestic outbuildings and garages"

The household contents are defined as:

Household goods and personal effects of every description, the property of the insured or for which they are responsible.

So what can the insured do?

The insured's options depend very much on the type of work they carry out from home.

Remember the insured will not only need cover for fire and theft, but will also need public liability cover which could be anything from professional indemnity, products liability, defective workmanship or plain general liability.

Occupational Cover Needed For……		Option……
Direct Selling	☑ Damage to stock whilst at the consultants home ☑ Liability at the clients home ☑ The suppliers could be liable for the product defects ☑ Professional advice given, for example, which products to use	Extend the householders policy if the stock mounts to no more than say 5% to 10% of the sum insured. The liability section could be extended or a separate liability policy may be required. The consultant must check with the company they are selling for, as they may accept liability for consequences of the sales process and product.
Consulting Services	☑ Loss or damage to office equipment such as computers, printers or copiers ☑ Loss or damage to clients records ☑ Public liability cover for people being injured at the insured's premises ☑ Professional liability cover	Depending on the size of the operation the insured may be able to extend the householders policy for the loss or damage to their own property. Regarding damage or injury to third party property or persons, they will probably need a separate liability policy. An office premises policy could also be an option. Professional liability would have to be sought in the specialist market.

The problem for the average "home worker" is that they:

☑ do not realise that they need commercial insurance cover or
☑ cannot afford the premium and protections insurers require.

1.5.6 Self-insurance

Self-insurance occurs in those instances where the insured elects to bear the costs of any damage or loss to his assets himself.

A common example of an individual opting for self-insurance would be by way of an additional voluntary excess, or establishing a savings fund. Note that self-insurance is a conscious decision rather than simply neglecting to take out cover.

Consequences of self-insurance:

- ☑ Accumulating a substantial savings fund which may not be required
- ☑ The loss, or accumulated losses could exceed the amount saved in the fund
- ☑ A substantial loss could occur before adequate funds are accumulated.

Advantages of self-insurance:

- ☑ Run-of-the-mill claims can be paid out of a self-insured (emergency) fund, without the necessity of paying premium for these.

Disadvantages of self-insurance:

- ☑ A catastrophic loss can totally wipe out the fund.
- ☑ Money is tied up in the fund, which could be used for other purposes.
- ☑ The basic principle of insurance (spreading the risk) is ignored.
- ☑ A large number of small losses could wipe out the fund.

Client Specific Contractual Obligations

1.6.1 Hire-purchase agreements (installment sales)

It is a requirement by all finance houses in most of their agreements, that the assets being financed are covered by insurance prior to the delivery of such an asset. This is the case in personal motor insurance, which is covered by a personal motor section of a personal lines policy.

Finance agreements require insurance on the outstanding balance owed to the finance house in respect of the asset, which is referred to as a credit risk policy. It is important to note that this insurance cover is relevant to the Long-term Category B type of product as defined in the FAIS Act.

1.6.2 Tenant's liability

Tenant's liability covers a person renting premises, for damages that may arise out of an insured event, covered under the household goods section.

This extension may appear as part of the householders wording or be part of the personal liability section. The extension provides indemnity to the policyholder in his capacity as tenant for legal liability arising from:

- ☑ damage to the building, including landlord's fixtures and fittings, caused by an insured event.
- ☑ accidental damage to sanitary ware and fixed glass.
- ☑ accidental damage to electricity, water, gas, or other public service installations or connections between the dwelling and the mains supply.

Determined the Clients Insurance Need

With all of the above concepts understood and explained, one can now start applying these concepts in order to determine a client's need for insurance.

1.7.1 Gather information from the client by asking relevant questions

Each insurance company or broker 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:

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

1.7.2 Establish insurable interest, previous claims loss history, previous insurance information and the personal financial status of the client

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.

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

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

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

1.7.3 Identify the areas of risk to which the client is exposed

There are certain steps that can be followed as part of a needs identification process. This would include unpacking the information regarding the items or assets to be insured, such as:

House owners:

The value of the property and its structure(s)

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

Householders:

The value of the household contents:

- ☑ Household Inventory: It is very seldom that a proposed client can provide an accurate sum insured for their household contents. It is therefore necessary to recommend an inventory of household items with the estimated replacement value of each item. Such an inventory becomes very valuable in determining the value of music and film CD's and DVD's which are seldom itemised or valued.

  This can also then become a very useful risk management tool during a review process to ask whether new items have been acquired that may increase the sum insured.

- ☑ Security arrangements of the property: Precautionary measures such as burglar-proofing, house alarms linked to 24-hour armed response, electric fencing and secured walls around the perimeter of the property.

General all risks (Unspecified):

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

All risks (Specified):

The identity of each specified item, its value, and the use thereof should be detailed. The terms and conditions for these items are often dependent on the precautionary measures practiced by the insured.

These items can include cameras, jewellery, and sporting equipment as mentioned above, the value thereof will usually be greater than the general all risks limit applied for unspecified items.

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, may include:

- ☑ sound systems or speakers
- ☑ magwheels;
- ☑ spoilers
- ☑ performance system

Security arrangements may be factory fitted and can include:

- ☑ tracking devices
- ☑ approved immobilisers
- ☑ gear locks
- ☑ alarm systems
- ☑ smash-and-grab film on the windows of the vehicle

Use of the vehicle is generally classified as:

- ☑ 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:

- ☑ 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.

Small craft:

Identity, replacement value and use of the motor or sailboat

Replacement value of the accessories and trailer

Use of small crafts would refer to:

- ☑ inland waters
- ☑ coastal waters
- ☑ deep-sea use

Personal computers:

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.

Client's risk exposure

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

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

Examples:

House content cover

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

Personal Motor

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

Specified All Risk

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

Summary

In summary one needs to understand:

- ☑ the basic principles of insurance
- ☑ the terms and conditions of policies
- ☑ the benefits offered in addition to insurance cover
- ☑ the types and classes of cover available
- ☑ the contractual obligations of clients.

Only once the above are fully understood can one start analysing a person's current insurance cover, to accurately reflect on the risks that the client is exposed to and determine the client's insurance need.