



inseta

**INSURANCE SECTOR EDUCATION
AND TRAINING AUTHORITY**

FSB REGULATORY EXAMINATION PREPARATION

Section 10:

Second Level Regulatory
Examination: Short-term Insurance:
Personal Lines

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Tasks

The material provided in this guide is based on the following tasks, as published in Board Notice 105 of 2008 and amended in Board Notice 60 of 2010:

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.

Please note that any reference to:

- masculine gender implies also the feminine
- singular indicates also the plural, and vice-versa.

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, that 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: 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; 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

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

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 judgement 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

Chapter

1

Determine the client's need for insurance

This chapter covers the following criteria:

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 chapter 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.

1.1 EXPLAIN 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 are:

- owners and joint owners of property
- mortgagees and mortgagers
- 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 profit 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 Policyholder Protection Rules as well as the Financial Advice and Intermediary Services (FAIS) Act that various aspects of financial arrangements be 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 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 Chapter 9.

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

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
- may begin acting before they pay out the money for repairing the damages to Elias' 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, which 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 an accidental fire; the fire is the proximate cause of the damage by 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 the 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 definition of contribution is:

"... the right of an insurer to call upon other insurers similarly (though not necessarily equally) liable to the same insured to shared 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 Chapter 8.

Contribution is more clearly found in commercial or corporate insurance; however, it does have an impact on the personal lines insurance environment. In many instances this 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.

1.2 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.

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, cashback 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 amount of the discount (and therefore reduction in premium) allowed, may be adjusted by the insurer.

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

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

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

The purpose of the No Claims Bonus system is to reward those policyholders who do not claim.

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 “cashback bonuses” if the insured has not claimed for a specified period. Insureds who fall under this category may receive a percentage of the premium they have paid.

Cash back bonuses are used as an underwriting tool, to reward policyholders for not claiming unnecessarily. However it 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.

1.4 EXPLAIN THE DIFFERENT LINES 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:

1. 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.
2. 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.

3. "Bank assurance" is a term used to describe the combination of insurance and banking principles which banks market to their clients.

1.5 EXPLAIN THE DIFFERENT TYPES OF COVER, AND THE IMPLICATIONS AND BENEFITS THEREOF

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 householders 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.

Occupation...	Cover Needed for...	Options...
Direct selling	<ul style="list-style-type: none"> • Damage to stock whilst at the consultant's home • Liability at the client's home • The suppliers could be liable for the product defects • Professional advice given, for example, which products to use. 	<p>Extend the householders policy if the stock amounts to no more than say 5% to 10% of the sum insured.</p> <p>The liability section could be extended or a separate liability policy may be required.</p> <p>The consultant must check with the company they are selling for, as they may accept liability for consequences of the sales process and product.</p>
Consulting services	<ul style="list-style-type: none"> • 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. 	<p>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.</p> <p>Regarding damage or injury to third party property or persons, they will probably need a separate liability policy.</p> <p>An office premises policy could also be an option.</p> <p>Professional liability would have to be sought in the specialist market.</p>

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.

1.6 DESCRIBE CLIENT SPECIFIC CONTRACTUAL OBLIGATIONS

1.6.1 Hire-purchase agreements (instalment sales)

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

Finance agreements require insurance on the outstanding balance owed to the finance house in respect of the asset, which is referred to as a credit risk policy. 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.

1.7 DETERMINING THE CLIENT'S 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 practised by the insured.

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

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.

Self-Assessment Questions

1. What does the principle of insurable interest mean?
 - a) The insured requires cover for his grandson's car.
 - b) The insured claims for loss of a neighbour's lawnmower.
 - c) The insured has to suffer a loss of an item, which he owns.
 - d) The insured's property is 100% bonded to a bank.

 2. What is the purpose of underwriting criteria?
 - a) To establish the profitability of the insurer
 - b) To establish the correct premium on a risk
 - c) To identify high and low risks
 - d) To rate the premium as per client's risk address

 3. What is comprehensive cover as applied in insurance?
 - a) It covers anything that could happen to a vehicle.
 - b) It covers the injury of third parties only.
 - c) It covers theft and accident damage and damage to third parties.
 - d) It covers only certain incidents to a vehicle.

 4. Under which sections of a policy does tenant's liability fall?
 - a) House owners
 - b) Householders
 - c) Motor
 - d) All risks

 5. With whom does the duty of disclosure lie?
 - a) The intermediary
 - b) The intermediary and insurer
 - c) The insured
 - d) The intermediary, insurer, as well as insured

 6. Disadvantages of self-insurance?
 - a) Bankruptcy
 - b) Having insufficient funds to cover a loss
 - c) Having control over your insurance savings
 - d) Having claims settled faster than by an insurer
-

7. What are the terms and conditions of insurance policies?
- a) Evidence of the existence of the insurance contract
 - b) The rules on how the premium should be paid
 - c) The details of the property insured
 - d) The rules of the administration of the policy
8. What is the function of the policy schedule?
- a) To require the premiums be paid
 - b) To outline the excesses payable
 - c) To confirm the sums insured and premium applicable
 - d) To outline the cover provided
9. What line of insurance would a multi-peril policy fall under?
- a) Personal Lines
 - b) Motor
 - c) Niche Market
 - d) House Owner's
10. What is average used for?
- a) To establish the sum insured
 - b) To even out the premium between sections
 - c) To establish the contribution of a claim
 - d) In the event of underinsurance on a claim

Self-Assessment Answers

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 - d) **In the event of underinsurance on a claim**

Chapter

2

Match the client's need to the relevant products

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Explain how to apply underwriting criteria.

SKILLS CRITERIA

Conduct a comparison of types of cover available to the client.

Purpose

This chapter provides an understanding of how underwriting criteria affect an insurance quotation as well as examples on providing a comparison between products and cover for which a quotation is recommended.

2.1 APPLY UNDERWRITING CRITERIA

2.1.1 How are underwriting criteria applied?

When preparing and calculating a quotation for insurance purposes, each additional risk to which the client is exposed as well as the nature thereof, needs to be factored in terms of the underwriting criteria, to ensure that the client is paying the correct premium for their risk exposure.

Therefore a quote would look as follows:

House Owners

Value of building	R900 000
Loading for thatched roof	20%

Householders

Value of household contents	R250 000
Security discount for: burglar bars electric fence 24-hour security guard	10%

All risks (Unspecified)

Value of goods to	R10 000
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All risks (Specified)

Engagement ring	R20 000
Additional requirement:	a valuation certificate

Pentax Camera	R15 000
Additional requirement:	a valuation certificate
Camera accessories	R10 000
Additional requirement:	a valuation certificate
Personal Motor	
VW Polo, 1.4 Trendline (retail value)	R110 000
Standard Excess of 5% of damage or R2 500, whichever is the greater	
Driver under 25	
Additional Excess of R2 500	
Not a regular driver	
Additional Excess of R1 500	
Personal accident	
Injury arising from a personal accident	
Limited to	R500 000
Personal liability	
Injury, death or damage to property of third persons arising from any one incident	
Limited to	R2 000 000

2.1.2 Compare the types of cover available to the client

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

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

This evaluation would include:

- the terms and conditions relating to cancelling or amending the current policy should this be necessary.

- the sums insured per section of the policy.
- the premium and applicable excesses per section.
- any loadings, endorsements or restrictions of cover per section.
- any additional benefits the policy provides.

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

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

Step three then relates to matching the client's needs to alternative insurance products. There are two types of scenarios applicable in proposing products to clients.

Direct Insurers

The first relates to the employees of direct insurers; in which case the employee may only work with products within the relevant insurer's portfolio, such as a general personal lines policy, or a designer product for a specific client target market.

In respect of the insurer scenario, however, not all insurers offer a variety of products from which the client may select a choice. Therefore it is possible that there will not be a comparison of products included in these proposals.

Intermediaries and their employees

The second scenario relates to the intermediary market where they deal with more than one insurer. In this scenario the intermediary is now compelled by the FAIS requirements to provide the client with a comparison of products, so that the client makes an informed decision for cover. The details of the comparison conducted need to be kept on record in terms of FAIS requirements.

Different products that may be considered

There are many existing policies that have been developed for niche markets even in the personal lines environment, such as Motor-only policies, third party

only policies, or even limited mileage policies in which the client only pays for the category of mileage they use.

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

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

- 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.

Example of a comparison of multi-peril cover

Cover required	Value to be insured	Client’s existing premium	Product A quoted premium	Product B quoted premium
House Owners Value of the house	R900 000	R300	R400	R350
House Holders Value of contents per the inventory	R250 000	R450	R525	R400
All risks (unspecified) Value of cover provided	R10 000	R250	R150	R200
All risks (specified) Engagement Ring	R20 000	6.5% R108.33	5% R83.33	5% R83.33

Cover required	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
Camera Camera accessories	R15 000 R10 000	7.5% R156.25 Valuation certificate	6% R125 Valuation certificate and proof of ownership	6% R125 Valuation certificate
Personal Motor Vehicle VW Polo Standard excess	R110 000 (retail value)	R775 5% of damage or R2 500, whichever is greater	R 1 275 7.5% of damage or R2 500, whichever is greater	R 950 5% of damage or R2 500, whichever is greater
Personal accident		R500 000	R450 000	R600 000
Personal liability		R2 000 000	R1 500 000	R1 750 000
Additional benefits		Roadside Assist Car Hire	Roadside Assist Car Hire Accommodation and Limited medical expenses for accident only	Roadside Assist Accommodation and Limited medical expenses for accident only Car Hire Call Centre assist for contracted services

Example of a comparison of types of cover

Cover required	Value to be insured	Client's existing premium	Multi-peril Product A quoted premium	Motor-only Product B quoted premium
House Owners	R900 000	Not currently	R400	Not applicable

Cover required	Value to be insured	Client's existing premium	Multi-peril Product A quoted premium	Motor-only Product B quoted premium
Value of the house		covered		
Householders Value of contents per the inventory	R250 000	Not currently covered	R525	Not applicable
All risks (unspecified) Value of cover provided	R10 000	Not currently covered	R150	Not applicable
All risks (specified) Engagement Ring Camera Camera accessories	R20 000 R15 000 R10 000	Currently insured by credit risk of R120 Currently covered by credit risk of R50		Not applicable Not applicable

Cover required	Value to be insured	Client's existing premium	Multi-peril Product A quoted premium	Motor-only Product B quoted premium
Personal Motor VW Polo Standard excess	R110 000 (retail value)	R775 5% of damage or R2 500, whichever is greater	R1 275 7.5% of damage or R2 500, whichever is greater	R950 5% of damage or R2 500, whichever is greater
Personal accident		R500 000	R450 000	R600 000
Personal liability		R2 000 000	R1 500 000	R1 750 000
Additional benefits		Roadside Assist Car Hire	Roadside Assist Car Hire Accommodation and Limited medical expenses for accident only Call Centre assist for contracted services	Roadside Assist Accommodation and Limited medical expenses for accident only Car Hire

By presenting the above comparison to the client, the client is able to compare the benefits and disadvantages of cover being offered based on affordability in relation to the cover offered.

The preparation of the quotation at this stage is only in respect of the standard cover and conditions provided in the policy. We now need to look at the additional risks and underwriting criteria in Chapter 3 to complete the quotation and the comparison therewith.

Summary

For an insurance representative to properly propose insurance solutions to a client, it is required for the representative to consider all the options best suited to the client's needs.

This can only be done through a comparison of quotations based on the premiums and benefits offered by each quote. Each quote should be considered in terms of the client's insurance exposure and prioritisation of needs.

Self-Assessment Questions

1. What is the purpose of underwriting criteria?
 - a) For the underwriter to charge a higher premium
 - b) To ensure that the client pays the correct premium for the risk exposure
 - c) To impose penalties on the insured for certain claims
 - d) To ensure that the client claims the right amount when he suffers a loss

2. How do underwriting criteria affect the premium charged?
 - a) Additional conditions are imposed for the risk accepted
 - b) Additional voluntary excesses are added for the client's risk
 - c) Loadings and discounts have a direct effect on the premium charged
 - d) Underwriting criteria have no effect on the premium at all

3. What components are included in a comparison of cover?
 - a) Premium, benefits and loadings applied
 - b) Period of insurance
 - c) Previous insurance record
 - d) Location and nature of risk

4. What components are included in an evaluation of cover?
 - a) Claims experience
 - b) Types of cover available to the client
 - c) Valuation certificates
 - d) An inventory for household contents

5. What are the factors that influence the comparisons of cover available to a client?
- a) Attitude of representative
 - b) Too few or too many quotes
 - c) Sums insured of cover requested
 - d) Cover provided, price for the cover, exclusions of cover
6. What is the purpose of presenting the client with a comparison of cover available?
- a) For the client to make an informed decision on his cover of choice
 - b) For the representative to compare the commission he will earn
 - c) For the insurer to calculate the admin fee anticipated
 - d) For the representative to show his ability

Self-Assessment Answers

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 - c) For the insurer to calculate the admin fee anticipated
 - d) For the representative to show his ability

Chapter

3

Apply underwriting criteria

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Explain the concept of reinsurance and limits of retention of the company.

SKILLS CRITERIA

Determine the factors and hazards that will influence risk.

Identify additional requirements, loadings, discounts and excesses, which may need to be applied.

Purpose

In this chapter the various factors affecting underwriter's decisions are discussed in terms of how they influence premium and accurately rate each individual for their respective risk exposure. They also impact on the terms and conditions of a policy in some cases, or result in the underwriter deciding which risks he may not accept.

3.1 REINSURANCE

3.1.1 The concept of reinsurance

Reinsurance is a means by which an insurance company can financially protect itself together with other insurance company(ies) against the risk of losses. Individuals and corporations obtain insurance policies to provide protection for various risks such as hurricanes, earthquakes, lawsuits, or collisions. Reinsurers in turn provide insurance to the insurance companies.

3.1.2 Retention limits

The retention limit is the maximum liability in respect of any loss that an insurer wishes to retain for his own account in respect of a particular risk.

There are various limits that are agreed upon between insurers and reinsurers. These limits are also applicable to various classes and the nature of risks for each class.

From a business point of view it is foolish for a primary underwriter to be financially over-exposed in respect of any one risk. The way insurance works is by spreading the risk as wide as is practical and affordable.

3.2 DETERMINE FACTORS/HAZARDS THAT WILL INFLUENCE RISK

3.2.1 What factors or hazards could influence the risk to which a client may be exposed?

The aim of risk management is to determine the impact of possible losses on the individual. Once possible risks have been identified it is necessary to consider:

- frequency of loss – how often losses may occur
- magnitude – the possible extent of each loss
- maximum possible loss – value of assets at risk.

Factors to be considered in a personal lines scenario would include, but not be limited to the following:

- House Owners
 - Old trees on the property, that could uproot walls or structures, or fall and damage property
 - Construction material – standard or otherwise
 - Situated near open field where veld fires may occur
 - Situated near rivers or dams where flooding may occur
 - Householders
 - Security threats, such as no burglar-proofing, electric fencing and similar precautionary measures
 - Flooding from natural waterways or plumbing deterioration as a result of age
 - Fire risk from lightning or electrical power surges
 - All risks
 - Hijacking, mugging or theft
 - Security precautions for valuable items - over a certain value should be kept in a safe and
 - Firearms must be kept in an approved safe
 - Personal Motor
 - Security of vehicles, such as locked parking garages
-

- Security fittings such as vehicle tracking systems, immobilisers, car alarms, gear locks
- Small craft
 - Stored on shore in secure area, or on water
 - Type of use (racing)
 - Description of accessories, including trailer

All of the above factors can be controlled or avoided in some way. This is influenced by risk control measures such as:

- risk avoidance or loss prevention to try and eliminate the possibility of a loss
- risk reduction by applying measures to reduce either the frequency or magnitude of the loss.

3.2.2 What are underwriting criteria?

As discussed in Chapter 1, underwriting criteria refer to the basic requirements, as well as additional requirements or financial loadings or discounts that an underwriter will consider in order to correctly evaluate and rate the risk. In addition to these, the above factors are also considered (as mentioned in Section 3.2.1) when setting the underwriting criteria.

In doing so the underwriting criteria may result in the following:

A **loading** is a percentage of premium that is added to the standard rate to cover the additional risk exposure in the event of a claim.

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

Additional requirements may be in the form of:

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

Voluntary excesses are also requested in some instances where the insured may opt to pay a higher voluntary excess to either ensure that the risk is covered or to reduce the premium.

3.2.3 Identify additional requirements, loading, discounts and excesses which may need to be applied

The following table reflects the possible underwriting provisions that may be considered for each of the factors that influence risk:

Factor	Underwriting provision
House owners - Situated near open fields or dams and rivers	Loading of premium Special conditions or exclusions
Householders - Security threats, burglar-proofing	Loading of premium or condition of cover
Householders – Flooding	Loading of premium for first claims and thereafter special conditions or exclusion at the discretion of the insurer
Householders – Fire	Special conditions or exclusions
All risks – Hijacking, mugging and theft	Valuation and security certificates
All risks - Accidental damage	Loading in the event of recurring claims
Personal motor – Security	Loadings, exclusions and additional excesses
Personal computer	Special conditions or exclusions
Small craft	Loading for use of craft

The following is an example of how these criteria may be applied on a comparative basis.

Cover requested	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
House owners Loading for thatched roof	R900 000	R300 20%	R400 15%	R350 Cover not available
Householders Discount for security	R250 000	R450 10%	R525 Conditional	R400 5%
All risks (unspecified)	R10 000	R250	R150	R200

Cover requested	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
All risks (specified) Engagement ring Camera Camera accessories Additional requirements	R20 000 R15 000 R10 000	6.5% R108.33 7.5% R156.25 Valuation certificate	5% R83.33 6% R125 Valuation certificate and proof of ownership	5% R83.33 6% R125 Valuation certificate
Personal motor VW Polo Standard excess Driver under 25 Additional driver	R110 000 (retail value)	R775 5% of damage or R2 500, whichever is greater R2 500 additional excess R2 500 additional excess	R1 275 7.5% of damage or R2 500, whichever is greater R3 000 additional excess R2 000 additional excess	R950 5% of damage or R2 500, whichever is greater R2 500 additional excess R1 500 additional excess
Personal accident		R500 000	R450 000	R600 000
Personal liability		R2 000 000	R1 500 000	R1 750 000
Additional benefits		Roadside Assist Car Hire	Roadside Assist Car Hire Accommodation and limited medical expenses for	Roadside Assist Accommodation and limited medical expenses for

Cover requested	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
All risks (specified)		6.5%	5%	5%
Engagement ring	R20 000	R108.33	R83.33	R83.33
Camera	R15 000	7.5%	6%	6%
Camera accessories	R10 000	R156.25	R125	R125
Additional requirements		Valuation certificate	Valuation certificate and proof of ownership	Valuation certificate
			accident only	accident only Car Hire Call Centre assist for contracted services

Summary

Underwriting criteria are critical in ensuring that the client pays the correct premium for the risk for which the cover is provided. In order to ensure this balance one needs to understand how to apply such criteria to ensure that the client:

- pays the correct amount of premium
- understands the additional restrictions or limits of cover and
- provides all the relevant documentation or information

for the risk to which he is exposed.

It is further important to understand that every insurer has a different way of evaluating such risks and therefore the imposed loadings or restrictions should also be compared before making a recommendation to the client.

Self-Assessment Questions

1. What is reinsurance?
 - a) A financial facility available to insurers to pay losses claimed for
 - b) A means of guarantee for insurance companies against financial losses
 - c) A means by which an insurance company can financially protect itself with other insurance companies against the risk of losses
 - d) A security for co-insurers that losses will be covered

2. What are retention limits?
 - a) Limits of cover provided in any one section of a policy
 - b) The maximum liability in respect of any loss that an insurer wishes to retain
 - c) The minimum liability a reinsurer will accept for a loss
 - d) The minimum amount that an insured can claim for in the event of a loss

3. What factors or hazards could influence risk to which a client may be exposed?
 - a) Whether the client pays cash or by debit order
 - b) How much premium the client pays for the cover he enjoys
 - c) The fact that the client practices risk avoidance measures
 - d) Frequency and magnitude of loss, and maximum possible loss

4. Name factors that would influence the risk for the personal motor section?
 - a) The make, model and year of the vehicle
 - b) The vehicle's engine capacity, warrantee and sound maintenance record
 - c) Security of a vehicle's location, and the security fittings of the vehicle
 - d) How much the insured owes to the finance house for the vehicle

5. Name the four types of underwriting criteria that an underwriter may impose.
 - a) Loadings, discounts, additional requirements or a voluntary excess
 - b) Premium, VAT, broker commission and admin fees

- c) Valuation certificates, premiums, VAT and a 10% discount for early payment of premiums
 - d) Debit order charge, broker commission, lower premium and higher excesses
6. What underwriting criteria would most likely be imposed for a house situated near a dam or river?
- a) No underwriting criteria would be imposed
 - b) Loading of premium and special conditions or exclusions
 - c) Standard terms and conditions only
 - d) Conditions requiring additional burglar-proofing
7. What underwriting criteria would most likely be imposed for a personal computer?
- a) Details of the make and model of the computer
 - b) A valuation certificate
 - c) That it be specified under All Risks
 - d) Special conditions or exclusions
8. What actions may an insured take to reduce his premium for a particular risk?
- a) Accepting a voluntary excess
 - b) To avoid a claim at all costs
 - c) To pay his premium in advance
 - d) To avoid risks at all costs
9. Why is it important to compare the underwriting criteria imposed by different insurers when making a recommendation to the client?
- a) To assess how much commission the intermediary may earn
 - b) To ensure the lowest premium quoted
 - c) Each insurer has a different way in which they evaluate similar risks and therefore impose different underwriting criteria
 - d) To ensure full disclosure when making a recommendation to the client
10. What control measures could an insured practice to manage risk?
- a) Risk avoidance or risk reduction
 - b) Avoid all possible risks
 - c) Add additional electric fencing to the insured property
 - d) Take out two policies for the same risk

Self-Assessment Answers

1. What is reinsurance?
 - a) A financial facility available to insurers to pay losses claimed for
 - b) A means of guarantee for insurance companies against financial losses
 - c) A means by which an insurance company can financially protect itself with other insurance companies against the risk of losses**
 - d) A security for co-insurers that losses will be covered

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 - a) Limits of cover provided in any one section of a policy
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 - a) The make, model and year of the vehicle
 - b) The vehicle's engine capacity, warrantee and sound maintenance record
 - c) Security of a vehicle's location, and the security fittings of the vehicle**
 - d) How much the insured owes to the finance house for the vehicle

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10. What control measures could an insured practice to manage risk?
- a) Risk avoidance or risk reduction**
 - b) Avoid all possible risks
 - c) Add additional electric fencing to the insured property
 - d) Take out two policies for the same risk
-

Chapter

4

Draft/request a quotation for insurance

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Explain the applicability of rate structures.

Explain the concept of SASRIA as it applies to premium.

SKILLS CRITERIA

Apply, calculate and illustrate applicable rates including fees and SASRIA with taking reinsurance into account where applicable

Purpose

This chapter describes how rate structures are applied in order to calculate the applicable premium per section of the policy. It also describes how SASRIA affects premium and what financial calculation should be disclosed in a quotation.

4.1 EXPLAIN THE APPLICABILITY OF RATE STRUCTURES

4.1.1 Rate structures

Rating 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.

- House Owners is generally calculated on a percentage rate of the replacement value of the house.
 - Householders is calculated on a percentage rate of the replacement value or market value of the contents as listed in the inventory.
 - Specified all risks is calculated on a percentage rate of the value and type of the item as an annual premium, and divided by the number of months as required by the underwriter.
 - Unspecified all risks is generally a limit provided in the terms and conditions of the policy, and is a percentage rate of the limit.
 - Personal computer is calculated as a percentage rate on the replacement value of the computer.
 - Motor premium is based on the use of the vehicle, the area in which it is kept, the value of the vehicle and the model and type of vehicle.
 - The rate is calculated from a table listing the above.
 - Small craft for motor or sail boats is calculated as a percentage rate of the replacement value of the craft and its accessories dependent on the use of the craft (inland water, coastal or deep-sea usage).
 - Personal accident is generally free up to a certain limit and thereafter rated for additional cover.
 - Personal liability is normally free.
-

4.2 EXPLAIN THE CONCEPT OF SASRIA AS IT APPLIES TO PREMIUM

4.2.1 What is SASRIA?

It is important to note that in South Africa insurance is available against the fundamental risk of riot (or unrest), strikes and the like. This cover is provided by the South African Special Risks Insurance Association (SASRIA). It is important to note that this cover does not include acts of war.

This is a premium for cover relating to riot, strikes and unrest, which is added to the personal lines premium for cover. There are varying classes of cover, each with its own applicable rate or cost.

Types of coupons

There are four 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 a certificate and a policy wording. It is normal in the insurance industry to refer to them as coupons.

The types of cover:

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

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

Underlying policy

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

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

Premium accounting

Premiums must be paid over by insurers within 45 days of the month in which cover begins.

Value Added Tax (VAT)

All premiums and sums insured are inclusive of VAT. Commissions payable to members and their intermediaries are also inclusive of VAT. The coupons and policies issued serve as VAT invoices.

Monthly premiums

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.

Pro rata premiums

Pro rata premiums apply the first time the insured takes out SASRIA cover. At every subsequent issue – for instance at renewal of the underlying policy – the full annual premium is payable.

A pro-rata premium may also be charged to enable the period of insurance to be adjusted, so that the renewal date of both the underlying policy and SASRIA policy, falls in line with the insured's financial year.

It is necessary to disclose the SASRIA portion of the premium to the client.

SASRIA cover is not automatically renewable, however it is generally dealt with during the renewal process.

4.3 APPLY, CALCULATE AND ILLUSTRATE APPLICABLE RATES INCLUDING FEES AND SASRIA

4.3.1 How do we calculate and disclose premium?

When providing a client with a quotation, it is required that all components that comprise the premium that the client is anticipated to pay, must be disclosed.

These components include:

- premium for cover provided
- portion of SASRIA applied
- additional loadings or discounts
- administration fees
- vat
- broker commission where applicable.

The first three (3) components listed above should be relevant to each section of the policy.

The administration fees, VAT and broker commission would be an overall amount for the policy and not per section.

Cover requested	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
House Owners Loading for thatched roof	R900 000	R300 20% = R60	R400 15% = R60	R350 Cover not available
Householders Discount for security	R250 000	R450 10% = R45	R525 Conditional	R400 5% = R20
All risks (unspecified)	R10 000	R250	R150	R200
All risks (specified) Engagement ring Camera Camera accessories Additional requirements	R20 000 R15 000 R10 000	6.5% R108.33 7.5% R156.25 Valuation certificate	5% R83.33 6% R125 Valuation certificate and proof of ownership	5% R83.33 6% R125 Valuation certificate
Personal Motor VW Polo Standard	R110 000 (retail value)	R775 5% of damage or	R1 275 7.5% of damage or R2	R950 5% of damage or R2 500,

Cover requested	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
excess		R2 500, whichever is greater	500, whichever is greater	whichever is greater
Driver under 25		R2 500 additional excess	R3 000 additional excess	R2 500 additional excess
Additional driver		R2 500 additional excess	R2 000 additional excess	R1 500 additional excess
Personal accident	Value of cover	R500 000 Premium R45	R450 000 Premium R30	R600 000 Premium R50
Personal liability	Value of cover	R2 000 000 Premium Free	R1 500 000 Premium Free	R1 750 000 Premium Free
Additional benefits		Roadside Assist Car Hire	Roadside Assist Car Hire Accommodation and limited medical expenses for accident only	Roadside Assist Accommodation and limited medical expenses for accident only Car Hire Call Centre assist for contracted services
Premium		R2 189.58	R2648.33	R2 178.33
Additional Benefits	Car Hire	R120.00	R80.00	R115.00
VAT		R365.53	R417.85	R360.45
SASRIA				

Cover requested	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
Motor		R2.00	R2.00	R2.00
Non-motor		R4.34	R4.34	R4.34

Cover requested	Value to be insured	Client's existing premium	Product A quoted premium	Product B quoted premium
Debit order fee		R286.43	331.90	285.15
Admin fee		R295.00	R250.00	R275.00
Broker commission	15%	R402.22	R472.89	R399.02
Total premium		R3 262.88	R3734.42	R3 220.27

The broker commission is calculated on the sum of the overall premium, additional benefits, SASRIA and VAT shown above.

Summary

It is required by the FAIS legislation that all necessary figures are disclosed that make up the insurance premium, including:

- SASRIA cover
- administration fees
- broker commission
- any other applicable amounts.

Self-Assessment Questions

1. What is the purpose of a rate structure?
 - a) To charge the lowest premium for cover
 - b) To ensure the correct value is charged for SASRIA
 - c) To disclose the premium calculation
 - d) To advise on the premium payable for the cover required

2. How does SASRIA impact the premium charged?
 - a) SASRIA has no impact on the premium at all, as the cover is free.
 - b) It is a premium for riot, strikes and unrest cover, which is added to the personal lines premium for cover.

- c) Riot, strikes and unrest cover is not covered at all in a personal lines policy.
 - d) It is factored into the rate structure for standard cover.
3. What are the components of premium that the representative must disclose?
- a) Premium for cover provided, portion of SASRIA applied, additional loadings or discounts, admin fees, broker commission and VAT
 - b) Premium charged per section of the policy
 - c) Admin fees, broker commission and VAT as the rest is detailed in the policy wording
 - d) SASRIA and other hidden costs
4. Which values should be shown per section in a quotation?
- a) Broker commission, admin fee and VAT
 - b) Loadings and excesses applicable
 - c) Premium for cover provided, portion of SASRIA applied and additional loadings or discounts
 - d) Premium for cover and sums insured
5. Which values apply to the overall quotation and not per section?
- a) Sums insured and premium quoted
 - b) Administration fees, VAT and broker commission
 - c) Excesses and loadings
 - d) SASRIA and premium
6. How would you calculate the cost of the loading applied to the house owners section of a policy?
- a) It is a percentage of the value owed to the finance house by the insured
 - b) It is a fixed portion of the value of the property
 - c) It is calculated on the value of the property as stated on the municipal account
 - d) It is calculated as a percentage of the value of the sum insured

Self-Assessment Answers

1. What is the purpose of a rate structure?
 - a) To charge the lowest premium for cover
 - b) To ensure the correct value is charged for SASRIA
 - c) To disclose the premium calculation
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 - a) Broker commission, admin fee and VAT
 - b) Loadings and excesses applicable
 - c) Premium for cover provided, portion of SASRIA applied and additional loadings or discounts**
 - d) Premium for cover and sums insured

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 - c) Excesses and loadings
 - d) SASRIA and premium

6. How would you calculate the cost of the loading applied to the house owners section of a policy?
- a) It is a percentage of the value owed to the finance house by the insured
 - b) It is a fixed portion of the value of the property
 - c) It is calculated on the value of the property as stated on the municipal account
 - d) It is calculated as a percentage of the value of the sum insured**

Chapter

5

Agree to terms and conditions of cover

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Describe endorsements, restrictions, exclusions, conditions of insurance, application of terms and conditions as applied to the quotation.

SKILLS CRITERIA

Present the agreed terms and conditions to the proposer.

Obtain acceptance from the client.

Follow up on outstanding requirements such as valuation certificates and security requirement certificates.

Purpose

This chapter outlines the purpose and description of the terms and conditions of cover.

5.1 AGREE TO TERMS AND CONDITIONS OF COVER

Once the proposed insured has agreed to a certain quotation it is important that one explains the terms and conditions of the cover to the client to ensure that the client fully understands what is covered and what is not.

A contract of insurance could not exist unless the terms of the contract are fully understood and agreed on by the parties.

It is important to remember that the policy document that the insured receives from an insurance company is not the actual contract, but is the evidence of the contract's existence. The proposal form constitutes the offer that was made to the insurers. This includes details of the risks involved. Once the insurers have accepted the offer, a valid contract is in place.

The terms and conditions are contained in the policy wording and include endorsements, restrictions, exclusions, warranties and conditions of insurance.

5.1.1 Endorsements

Endorsements are clauses appended to the policy which may either restrict or extend the normal policy cover, or which may record changes in circumstances.

When an amendment to a policy is required, it is usually done by means of the issuing of an endorsement. An endorsement is a document that amends and overrides the original terms and conditions with regard to those areas that have been changed.

Typical endorsements that would be issued include a change in the terms and conditions, in the premium, in the nature of the risk, the addition or deletion of an asset, changing of the premium payment frequency.

Neither of the parties, insured nor insurer, may change the terms without the other's consent. The following points apply to changes to an insurance contract:

- Changes mutually agreed upon must be recorded by endorsement.
- If the parties cannot agree on a change, the policy may have to be cancelled.
- Each renewal of a short-term policy, monthly or annually, is regarded as a fresh contract - terms can be amended.

5.1.2 Exclusions and restrictions

Exclusion clauses have the effect of relieving one party to the contract of insurance of liabilities that he might otherwise incur towards the other party in terms of the contract. Clauses excluding one party to the contract from responsibility for any liabilities arising in connection with that contract, no matter how induced, are called exclusions and occasionally restrictions.

Exclusions which may appear in the terms and conditions may be as follows:

- Any losses arising from nuclear fission, war, riot and civil unrest in South Africa, or
- use other than the description of use as stated in the policy.

Both of the above examples will result in the insurer not accepting liability in the event of a claim.

Restrictions are generally clauses that place conditions of cover on a particular insured asset, or the limit of cover provided for a specified item. Such clauses may include:

- limitation of use of a specified item (such as no professional use of a camera), or
- vehicle to be kept in locked garage overnight.

Any restriction, if not adhered to, may create a dispute in the event of a claim.

Any endorsement, suspension or cancellation of a driver's license must be advised as soon as possible to insurers. This applies to anyone who drives the

vehicle. Driver's Licence endorsements are material facts for motor insurance, and can give rise to a dispute in the event of a claim.

5.1.3 Conditions of insurance

General conditions are rules governing the application and interpretation of the contract as a whole.

Conditions may be found relating to each section of the policy, but cover very similar points. Some common conditions may be:

- a condition stating that the policy is only in effect if the insured complies with all the terms of the policy, including the payment of the premium.
- the requirement that the insured notify the insurer if there are any changes in risk.
- procedures to be followed in the event of a claim. This may vary from cover to cover but will include timeframes for notifying the insurer of a claim.
- the consequences of fraudulent acts.
- reference to the fact that the insured should take all reasonable steps to avoid and minimise risk of loss or damage or incurring liability.
- an outline of what is to happen if there are other policies in force covering the same loss and same subject matter, as this will concern the principle of contribution
- conditions under which an insurer or insured may cancel a policy and the procedure therefore.

5.1.4 Application of terms and conditions as applied in the quotation

The insurer's quotation is regarded as the legal offer.

It is a general and overriding principle that the intentions of the insurer and the insured should prevail and that these are set out in the terms and conditions of the policy – that is that the policy should accurately reflect what they meant to say.

If any information has been misconstrued, this should be dealt with immediately and brought to the attention of the other party at the earliest possible opportunity.

This would prevent any possible dispute arising in the event of a claim.

The acceptance of this offer by the insured creates the contract. This contract will be evidenced by the policy wording which the insured must read carefully and bring to the attention of the insurer any anomalies or omissions.

In personal lines the terms and conditions rarely change in their intentions.

5.2 PRESENT THE TERMS AND CONDITIONS TO THE CLIENT

5.2.1 Preparing and presenting the proposal

In the ambit of the FAIS requirements, it is imperative that the client be furnished with all the relevant information to make an informed decision.

An insurance proposal to the client therefore, must include, in a language the insured understands:

- a covering letter.
- the comparison of cover proposed, which includes all relevant quotes received, and their comparison to the clients current cover.
- a recommendation of cover proposed.
- awareness of risk exposure and possible solutions in which these risks can be addressed
- full details of the intermediary, product supplier(s) and any other relevant party to the recommendation proposed.

In presenting the above to the client, the representative must highlight all of the proposed changes in cover and benefits, as well as the applicable exclusions/restrictions as detailed in the terms and conditions.

5.2.2 Obtaining additional requirements or information

Upon the client's acceptance of the recommendation or of a specific quotation, it may be necessary to obtain additional information or documentation from the client, to conclude the transaction.

It is necessary to take note of specific time limits in respect of these requirements, as the failure to obtain such information or documentation may result in a delay of cover being granted to the client.

5.2.3 Obtaining acceptance

The recording of the client's acceptance is critical to the validity of the policy. This can be done in various manners, such as a recorded telephone call between the client and representative, or in writing by the signing of an acceptance form with the intermediary.

Without such acceptance from the client, the contract will be null and void.

5.2.4 Record-keeping

As per the FAIS requirements it is vital that the intermediary or representative keep a record for each client, which should reflect the following:

- A copy of the record on which the insured items were recorded
- A copy of all quotations considered
- A copy of the recommendation made to the client.
- A copy of the client's acceptance of the recommendation or alternative quote.
- Copies of all additional documentation and information required
- A copy of the policy schedule with the terms and conditions of the policy wording.

Summary

Without a client's consent to the terms and conditions, underwriting loadings and restrictions imposed, as well as the premium charged with the relevant excesses, the insurance contract is null and void.

Self-Assessment Questions

1. What is the purpose of an endorsement on a personal lines policy?
 - a) It outlines the terms and conditions of a policy.
 - b) An endorsement is a clause that records changes in circumstances to a policy.
 - c) It details the item to be insured.
 - d) An endorsement removes an item from a policy.

2. What are exclusions to the contract of insurance?
 - a) Exclusions are the insured perils covered by an insurance contract.
 - b) Exclusions detail the insured assets.
 - c) Exclusions are conditions in the contract that relieve one party of liability toward another.
 - d) Exclusions are conditions for which claims will be accepted.

 3. What restrictions may be imposed in an insurance contract?
 - a) Limitation of the use of a specified item
 - b) The purchase price of an insured item
 - c) The make and model of an insured item
 - d) The benefits of the item

 4. Name one common condition of insurance.
 - a) The banking details of the insured
 - b) The age of the insured
 - c) Procedures for maintaining the vehicle
 - d) Procedures to be followed in the event of a claim

 5. Which of the following must be included in the insurance proposal presented to the client?
 - a) A copy of the representative's payslip
 - b) A comparison of cover proposed
 - c) A copy of the representative's qualification
 - d) A copy of the insurer's annual financial statements

 6. Which one of the following records must be kept in terms of the FAIS requirements?
 - a) A copy of the insured's payslip
 - b) A copy of the insured's bank statement
 - c) A copy of the recommendation made to the client
 - d) A copy of the insured's financial arrangement for HP agreements

 7. One of the items to be highlighted in a proposal by a representative is:
 - a) exclusions and restrictions to proposed cover.
 - b) the value of the client's property.
 - c) the security measures the client should maintain.
 - d) the fact that the client may require armed response.
-

8. A manner in which the client's acceptance can be recorded is:
- a) with the nod of the head.
 - b) there is no acceptance necessary.
 - c) a contract signed before a commissioner of oaths.
 - d) a recorded telephone call between the client and the representative.
9. What are the implications to be considered when obtaining additional requirements for cover?
- a) The location of the vehicle when it is parked at night
 - b) Any drivers that may use the vehicle other than the insured
 - c) Any time limits imposed by the insurer and documents must be complete and accurate
 - d) The maintenance plan the insured will follow in maintaining his home and vehicle
10. What additional requirement may the insurer impose to conclude the transaction?
- a) Valuation certificate, security requirement certificates
 - b) Loadings and discounts
 - c) To ensure the admin fee is paid
 - d) That the client sign a contract of insurance in hard copy

Self-Assessment Answers

1. What is the purpose of an endorsement on a personal lines policy?
- a) It outlines the terms and conditions of a policy.
 - b) An endorsement is a clause that records changes in circumstances to a policy.**
 - c) It details the item to be insured.
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 - c) To ensure the admin fee is paid
 - d) That the client sign a contract of insurance in hard copy

Chapter

6

Issue policy/fulfilment document

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Explain the procedure for issuing policies/fulfilment documents.

SKILLS CRITERIA

Submit/receipt of closings/acceptance of quote.

Ensure accuracy of closing/acceptance to the quote

Issue policy/fulfilment document

Quality assurance of policy document/contract to quote/proposal or closings

Purpose

It is imperative that representatives ensure that the policies issued coincide with the quotation the client accepted.

6.1 EXPLAIN THE PROCEDURE FOR ISSUING POLICY DOCUMENTS

Upon the client accepting the quotation, the representative confirms the receipt of the closings or acceptance form and follows the steps as outlined below.

6.1.1 Confirm that the quotation given is that which has been accepted

It is necessary for the insurer to confirm that the quote issued is the same as the quote accepted by the client. This is critical, as in some instances the premium value quoted might change slightly, or the risk address might change.

6.1.2 Confirm policy issued on quotation provided

The representative of the insurer and the intermediary is responsible for checking that once the policy documents are received, the policy schedule accurately reflects the sums insured for the various sections of the policy, and that the premium, stated benefits and exclusions are in agreement with the quotation.

For quality assurance, one needs to ensure that all of the following are in agreement:

- Premiums quoted and premiums charged
- Benefits offered and benefits provided
- Loadings, restrictions and exclusions applied
- Excesses applied and excesses quoted
- Insured property provided and insured property stated in the policy schedule.
- Date of inception

6.1.3 Regulatory requirements for issuing policies

Section 47 of the Short-term Insurance Act places a specific requirement on insurers to issue a personal lines policy (or at least a document embodying the contract, with access to a copy of the full policy) within 30 days after entering into or changing such a policy.

A policy must be issued within a prescribed period to ensure that the relevant parties are aware of their rights and obligations in terms of the policy.

Section 52 of the Act states that an individual (minor) who has reached 18 years of age, may enter into a short-term insurance contract without the consent of his guardian.

This individual will be held responsible for the payment of premium and terms and conditions of the policy as if he were an adult, for as long as he benefits from the policy.

The individual would also have the power to negotiate changes in the terms of the policy, as long as these changes are in the individual's interest as if he has attained his majority (reached the age of 21 years).

Summary

Besides the regulatory requirements for issuing policy documents, it is best practice to ensure that the policy document issued matches the quotation provided and the proposal accepted.

Self-Assessment Questions

1. Which one of the following is required for quality assuring a policy that is issued?
 - a) Agreement between the proposal, quotation and the policy itself
 - b) That the administrator issuing the policy has a relevant qualification
 - c) That the policy schedule has similar amounts to those quoted
 - d) That the sums insured are inflated by 10% for inflation purposes

2. What is the minimum age stipulated in Section 52 of the Short-term Insurance Act with regards to issuing policies to minors?
 - a) 21
 - b) 17
 - c) 18
 - d) 24

3. What is the regulated time period stipulated in Section 47 of the Short-term Insurance Act for policies to be issued to clients?
 - a) 15 days
 - b) 45 days
 - c) 60 days
 - d) 30 days

4. Which items in a policy must be checked against the quotation for quality assurance purposes?
 - a) The banking details of the client
 - b) Claims history, age of insured, property owner
 - c) Premiums, benefits, loadings, conditions, excesses and details of insured property
 - d) The consistency of the policy wording

Self-Assessment Answers

1. Which one of the following is required for quality assuring a policy that is issued?
 - a) Agreement between the proposal, quotation and the policy itself**
 - b) That the administrator issuing the policy has a relevant qualification
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 - b) 45 days
 - c) 60 days
 - d) **30 days**
4. Which items in a policy must be checked against the quotation for quality assurance purposes?
- a) The banking details of the client
 - b) Claims history, age of insured, property owner
 - c) **Premiums, benefits, loadings, conditions, excesses and details of insured property**
 - d) The consistency of the policy wording

Chapter

7

Provide a service to the client/maintain policy/client retention

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Explain the concept and process of renewal/review of policies.

Explain the procedures for making additions of changes to policies and the implications thereof.

Explain the conditions of collection and payment of premiums.

Explain the replacement policy concept.

SKILLS CRITERIA

Analyse the performance of the policy and establish whether the policy still meets the needs of the client.

Agree on changes in terms and conditions of the policy.

Communicate and confirm all changes to policies with all relevant parties.

Obtain supporting documentation for changes where required.

Make endorsements to policies and issue endorsements.

Ensure collection/payment or refund of premium.

Purpose

It is imperative that policies are reviewed each year to ensure that the cover provided in the policy is still adequate for the requirements of the insured. There are various aspects to consider in this process, as outlined in this chapter.

7.1 EXPLAIN THE CONCEPT AND PROCESS OF REVIEW/RENEWAL OF POLICIES

7.1.1 Analyse and review the policy

Is the policy still adequate for the cover that the insured requires?

Many things happen within a year in terms of an insured's assets. People acquire new furniture, hang new curtains, increase their security, buy new sound systems or televisions, and all these changes increase the overall value of their household goods.

A child in the house may reach the age of 17 and need to learn how to drive. This will affect the person's risk in terms of the motor section of their policy.

It is therefore imperative to re-confirm this information each year with the client to ensure that the client remains adequately covered. In the short-term environment this confirmation happens on an annual basis during a renewal process.

In addition to the above, inflation also has a role to play and gives rise to problems both for the policyholder and the insurer:

- It may result in underinsurance for the policyholder, with the result that average may be applied in the event of a loss, and
- The effect for the insurer is that the company is not receiving the amount of premium actually required to cover the insured risks, while the cost of claims continue to increase.

The manner in which insurers deal with the effect of inflation, is to build in an inflation index to the premium, which gives rise to a rate increase for cover provided.

7.1.2 Renewal of policies

It is a standard procedure that the insurers will send out renewal policy schedule (notices) for policies that are due for renewal. These could be sent out to the client directly or to the intermediary concerned, who in turn will refer and discuss the renewal notice with the client.

The purpose of renewal notices is to communicate a change in rate of premium if applicable and to remind the client to ensure that the values of his assets have been adjusted in line with the inflation factor, to ensure that he remains adequately covered for the next year. During the renewal process it is necessary to review the terms and conditions of cover as well as the values of the assets covered.

A renewal notice may even impose restrictions or conditions of proposed continued cover to a client, so that they can adequately manage the risk.

Again in the renewal process disclosures come into the forefront. These disclosures would include:

- any increase in premium if applicable.
- where applicable, any variations in cover or limits, as well as any changes to the terms and conditions of the policy.

The intermediary will evaluate all the rates, terms and conditions to see that they are fair and will renegotiate with the insurer, if necessary. When satisfied, the intermediary will contact the client to discuss the renewal.

Documentation required for disclosures in the event of a review or renewal would include any additional valuation certificates that may apply, and details of variations in the policy schedule or terms and conditions.

In the event of a renewal, the intermediary needs to keep record of the negotiations between the intermediary and client, as well as any changes in policy schedule or terms and conditions agreed. The revised schedule replaces the schedule in the policy document and details the cover for the next period of insurance.

In addition, ensure that the client fully understands his rights and obligations to obtain copies of any of the abovementioned documentation.

The client must be fully informed of the implications, including:

- all fees and charges applicable
- special terms and conditions, including loadings, excesses and restrictions
- waiting periods, these applicable only to personal accident
- the implications on vested rights in terms of no claim bonuses or cashback bonuses or incentives where applicable.

The intermediary should advise the client of comparative products and cover that are available and the premium thereof. This information must be discussed with the client.

If the current cover is to continue, the renewal premium should be paid by the client on or before the renewal date of the policy.

Once the insurer has been advised of the changes in the risk details and the policy has been amended, a revised schedule can be sent to the client.

There are some exceptional cases in the renewal process in which the insurer will not send out a renewal notice to a client because of a high moral hazard.

7.2 EXPLAIN THE PROCEDURE FOR MAKING ADDITIONS OR CHANGES TO POLICIES AND THE IMPLICATIONS THEREOF

7.2.1 Changes to the contract

Changes to the contract can be made at the time of issue of the policy, or subsequent to the policy being issued.

An endorsement to a policy overrides the terms and conditions of the original policy and therefore amends the contract itself. It is very important that these changes are correctly recorded.

Endorsements can affect the following sectors of a policy:

- The amounts insured
- The details of the subject matter of the insurance - for example a new risk address or a different vehicle
- Addition or deletion of sections insured for
- Increase in the premium payable as a result of a general premium increase, or higher premiums for a single insured as a result of the loss history
- General endorsements such as the deletion of terrorism cover for all insureds
- Change of payment methods and banking details
- Additional premiums as a result of amendments to the policy.

Changes to policies must be recorded, as these changes could have an impact on the potential severity of losses, and could leave the insured without appropriate cover if they are not recorded.

7.3 EXPLAIN THE CONDITIONS OF COLLECTION AND PAYMENT OF PREMIUMS

7.3.1 Collection of premiums

Where the intermediary is handling premium collections he must:

- be authorised by the insurer in writing.
- furnish a guarantee representing a regulatory portion of the estimated annual premiums handled in the year, with the limits of the regulatory requirements.
- include a statement of premiums with the payment.

This guarantee is usually effected through the IGF facility administered by the South African Insurance Association (SAIA), as per Part 4 of the Regulations referring to Section 45 of the Short-term Insurance Act, although other forms of secure guarantee can also be arranged, such as bank guarantees.

The regulations also require that all premiums, net of refunds due and the amounts due to the intermediary for services provided, are paid over to the insurers:

- for renewals, within 15 days after the end of the month in which they are collected or
- for new business, within 15 days after the end of the month in which the policy is incepted.

When is premium due?

In insurance practice, "due date" means:

- in the case of a new policy, the inception date of the policy.
- in the case of the renewal premium, this is the same as new business; the premium is therefore due on or before the renewal date.

Methods of payment

Premium for a policy can be paid in the following ways:

- The premium can be paid annually, half-yearly or quarterly. This method is still used by businesses and domestic clients. However, because of economic reasons, it is becoming less popular.
- Monthly payment by debit order.

Non-payment of premium

In short-term insurance, the client normally has no period of grace, as he has in the long-term market. The premium is due on a certain date and must be paid by that date.

If the intermediary does not submit the insured's payment during the required period of time, insurers may automatically cancel or reverse the cover because payment to the intermediary is deemed to be payment to the insurer.

One of the conditions applicable to admitting claims is whether or not the premium payments received are up-to-date.

When cover ceases - debit order policies

The policy wording and/or the debit order form that the client signs, tells the client when premium is due. It is normal practice for insurers to resubmit

unpaid debit orders to the bank for processing. However, if the debit order is returned as "payment stopped", the policy is cancelled immediately.

The effective date of the cancellation will be the due date of the first returned debit order.

Example:

- Premium is payable on the 28th March.
- This premium is in respect of April as the policy is payable in advance.
- Date of cancellation if debit order returned - 1st of April.

Conclusion

The collection of premium in the short-term marketplace has wide-ranging consequences. The type of collection can affect the terms of the insured's policy.

The collection of annual premiums paid over by intermediaries can be an administrative nightmare, with accounts departments within the insurance company receiving monthly bordereaux, which must be reconciled with outstanding premiums. It is very important for these statements to be monitored as premiums may become overdue.

Despite the regulations under the Short-term Insurance Act, it is not unheard of for premiums owing by the intermediary to be outstanding after a period of three months¹. Therefore the credit control function of the accounting department in an insurance company requires effective control.

7.4 EXPLAIN THE CONCEPT OF A REPLACEMENT POLICY

7.4.1 Replacement policies

Should it become apparent to the intermediary during the renewal process, that more favourable terms and conditions are available in the market, the intermediary should present the client with the option to renew the current

¹ Insurers cannot, however, reflect overdue premiums as an asset.

policy, as well as a quotation and recommendation on the alternative cover available.

The insurer of the existing policy, being replaced, needs to be notified of the intention not to renew the policy in terms of the conditions of the current policy.

Example:

Mr Jones, who is insured with ABC Insurers, is informed by his intermediary that his current policy is up for renewal. During the review of the renewal terms and conditions his intermediary advises him that a more affordable cover is available.

He arranges to meet with his intermediary who presents him with the terms and conditions of the current renewal, as well as the terms and conditions of an alternative product.

Upon consideration of the intermediary's presentation, it would appear that there is very little difference in the terms and conditions of the two policies, and that Mr Jones would in fact benefit from a lower premium charge for a higher value of cover.

Mr Jones accepts the new quotation and requests his intermediary to cancel his current cover and to transfer his portfolio to the new insurer.

Summary

The review and renewal process is as important as the original inception of the policy. It is often by omissions in renewals that the insured finds himself underinsured, unless the representative follows precautionary measures for each client.

It is imperative to note that a review process may result in a replacement policy in which case the FAIS process needs to be carefully monitored in terms of disclosures.

Self-Assessment Questions

1. What is the purpose of analysing and reviewing a personal lines policy?
 - a) To ensure the representative has received the commission due
 - b) To determine how much additional premium the insurer could charge
 - c) To determine that the policy still meets the insured's insurance needs
 - d) To ensure that all the security conditions are met in terms of the terms and conditions of the policy.

 2. What is the purpose of a renewal?
 - a) To re-evaluate the excesses and loadings of the policy
 - b) To confirm or amend sums insured and obtain acceptance should the premium increase
 - c) To see if the client can get a cheaper premium with another insurer
 - d) To check that the insured is still paying his premium

 3. In order for an intermediary to collect premiums he must comply with the following conditions:
 - a) Have a separate bank account for premium collection
 - b) Be a qualified accountant
 - c) Be authorised by the insurer in writing
 - d) Be a professional member of a professional body

 4. During which stage of an insurance policy lifecycle is a replacement policy possible?
 - a) At renewal of a personal lines policy
 - b) At inception of cover
 - c) Ad hoc when the insured requests it
 - d) Upon an insurer cancelling cover

 5. What is the concept of a replacement policy?
 - a) It is when an insured replaces one asset with another on his policy
 - b) An addition of another vehicle or house to the policy
 - c) An alternative finance arrangement to pay his premiums
 - d) An alternative and more favourable terms and conditions of cover recommended at the time of renewal
-

6. During the process of renewal of policies, what is the representative's role?
- a) To confirm his qualification and commission with the insured
 - b) To communicate and confirm all changes with the insured
 - c) To communicate to the insured that he has updated his professional status
 - d) To keep contact with the insured on a regular basis
7. With one of the conditions of insurance being the payment of premium, what are the implications of returned debit orders?
- a) Cancellation of cover
 - b) Cover continues indefinitely
 - c) Claims will be reduced by the amount of premium owed
 - d) The insurer will repossess the insured's assets
8. What is the consideration in regard to premiums in the event of a claim?
- a) That the insured at least pays some premiums
 - b) That the premium payments are up-to-date
 - c) That the premium will escalate by the rate of inflation
 - d) There is no issue regarding the premium in the event of a claim
9. Why is it important to record changes to policies?
- a) Because the FAIS Act requires it
 - b) For the representative to show that he has contacted his client
 - c) For the insurer to have an accurate policy record in the event of a claim
 - d) To check that the client operates in the terms and conditions of the policy

Self-Assessment Answers

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 - a) To ensure the representative has received the commission due
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Chapter

8

Process a claim

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Identify whether the loss is an insured peril in terms of the policy/fulfilment.

Explain the claims procedure and criteria for claims of the insurer.

Explain the concept and applicability of third party insurance and the procedure for third party insurance claims.

Describe the role of the relevant parties to a claim.

Explain the types of compulsory legislative insurance.

Explain what the applicable formulas are (e.g. average, betterment and contribution) and how they should be used.

SKILLS CRITERIA

Gather relevant information relating to the claim from the client.

Advise the client on the claims procedure.

Record the details of the incident or loss for record-keeping.

Notify the relevant parties of the potential loss.

Obtain all relevant documentation regarding the claim.

Validate the documents/information and the legitimacy of the claim.

Establish liability in terms of the policy. (Appoint a loss adjustor/assessor and/or investigator if necessary.)

Establish the value (quantum) of the claim.

Notify relevant parties of the claim's outcome (settle/reject) internally and externally.

Settle the claim if admitted.

Record the finalisation of the claim.

Purpose

Short-term insurance claims are the shop window of the Insurance industry. It is therefore necessary to carefully communicate procedures and administrative requirements, and ensure that the client fulfils all the terms and conditions of the policy, to facilitate a speedier claims process.

8.1 IDENTIFY WHETHER THE LOSS IS AN INSURED PERIL IN TERMS OF THE POLICY

8.1.1 The claims process

In the event of the insured suffering a loss or damage as a result of an insured peril, and if that loss is covered by the terms of the policy, the insured may submit a claim to his insurer.

This claim is an application by the insured for the repair of damage or compensation for the loss in terms of the insurance contract between the insured and the insurer.

Therefore one needs to ask the following:

- Is there a policy in force that covers the item lost or damaged?
- Is the proximate cause an insured peril?
- Have the policy terms and conditions been complied with?

Certain conditions must be satisfied, such as:

- an insured event must occur resulting in a loss or damage to an insured asset or a liability of the insured.
 - the insurer must be advised of such loss or damage within the time stated in the policy.
 - it must be confirmed that the policy covers the appropriate type and cause of loss.
 - the insurance contract must be enforceable, specific to the disclosure on behalf of the insured.
-

- the claims must be legal in that the insured cannot gain financially from his own illegal actions.
- the claims process for different categories of assets are dealt with in different ways, therefore upon notifying the insurer of the claim and the above confirmations, the relevant requirements will be communicated to the insured.
- where an insurer provides a claim form that requires additional supporting documentation to be submitted, it is the responsibility of the insured to complete the form and submit all the relevant details requested.

8.1.2 Insured perils

An insured peril relates to an insured event. As discussed in Chapter 1 a peril is the cause of the damage or loss, such as a flood, fire or accident.

It is however possible that certain perils are not insured, such as war, civil unrest or riot, or the consequence of a criminal act committed, whether intentional or not.

The exclusions to the insured perils however, would be detailed in the terms and conditions of the policy wording. Therefore when a claim is submitted, the peril needs to be confirmed in terms of the policy wording as an insured peril, for the claim to be accepted or processed.

8.2 EXPLAIN THE RELEVANT INSURER'S CLAIMS PROCEDURE AND CRITERIA

It is imperative to note that each insurer has their own particular claims procedure with their relevant requirements.

As noted earlier this may differ further between the different classes of business insured by the same insurer.

It is, therefore, very important that once a potential claim has been communicated to the relevant insurer, that the claims process for that claim is confirmed and communicated to the client.

8.2.1 Enforceable insurance contracts

The claims technician/negotiator will further evaluate the terms and conditions and excesses that apply.

Compliance with the terms and conditions of the policy can be checked as follows:

- When a claim is submitted to insurers, it is unlikely that all of the relevant details will be available, but as much information as possible should be obtained.
- The insurer will probably appoint a loss adjuster and this person will be able to investigate further.
- The loss adjuster will require details of the cover under the policy and it is likely that he will advise the insurance company as to whether the terms and conditions have been complied with.

If no loss adjuster is appointed, it is the claims technician/negotiator's job to check the claim form that is to be completed by the insured, to ensure that all terms and conditions have been complied with and that all documentation and information is complete.

The claims technician/negotiator will then, depending on the size of the loss, appoint a claims assessor and/or call for a fully completed claim form and supporting documentation.

Burden of proof

- The insured must prove that the loss was caused by a peril covered by the terms and conditions of the insurance he holds.
- The insured must further prove insurable interest in the loss or damage incurred.
- If the insurer wishes to claim that an exception operates then it is up to the insurer to supply the proof thereof.

8.3 EXPLAIN THE CONCEPT AND APPLICABILITY OF THIRD PARTY INSURANCE, AND THE PROCEDURE FOR THIRD PARTY CLAIMS

8.3.1 What is third party insurance?

Third party insurance covers damage to other people and their property.

Third party insurance

Third party insurance is usually included in the personal liability and motor sections of a personal lines policy of insurance to indemnify the insured party for liabilities that may arise in consequence of:

- accidental death of or injury to third parties, i.e. persons other than the insured.
- accidental loss or damage to a third party's property.

This is the most basic form of cover, which provides no cover for the policyholder's own loss or damage. There are a number of important exclusions to this cover. Such exclusions may include:

- death or injury to members of the insured's household.
- death or injury to people who are employed by the insured/ arising out of and in the course of their employment
- loss or damage to property belonging to the insured or which is in his custody or control.
- losses that are already covered by the Road Accident Fund Act.

The cover provided by this type of insurance is relatively limited, although extensions to the basic cover are available.

8.3.2 How does third party insurance work?

Scenario 1:

A defective wall on my property collapses and damages a visitor's car. The insurers of the car accept damage to the vehicle, and in subrogation claim under the third party cover of my personal lines policy.

Scenario 2:

I am stationary at a red traffic light and the car behind me crashes into me. My insurer claims from the third party cover of the other party through subrogation.

8.4 DESCRIBE THE ROLE OF THE RELEVANT PARTIES TO A CLAIM

When a claim is reported to the insurer, a claims assessor is sent out to establish the circumstances and extent of the damage or loss.

Instead of authorising repairs, the assessor may report back to the insurance company, which will authorise the repairs when all of the necessary documentation has been received and checked.

8.4.1 The insured

In the event of a loss or damage to an insured item, it is the responsibility of the insured to make every effort to notify the intermediary or insurer of the incident as soon as possible.

In many instances it will be required that the insured report the incident to the police and obtain a case number for the incident. It is critical that the insured provide accurate and detailed information regarding the incident in the police report. These would be necessary in cases of attempted theft, theft or motor vehicle accident.

The insured must obtain quotations for repairs or valuations for the items lost when required by the insurer. This documentation is often then required as supporting documents to the claim form submitted.

The insured may then be contacted by relevant parties appointed by the insurer to assess and facilitate the claims process. It is then the insured's responsibility to co-operate to the best of his ability to ensure a smooth and speedy resolution.

8.4.2 The intermediary

Where an intermediary is involved in a claims process, it is his responsibility to assist the client in:

- confirming the relevant claims processes and all the insurers requirements.
- being the communication link between the insured and insurer.
- provide assistance to the client in completing claim forms wherever necessary.
- submitting the claim forms to the insurer on the insured's behalf.
- keeping the insured informed of the claims process throughout the investigation and resolution thereof.

8.4.3 The insurer

Upon receipt of the advice of the incident, the insurer provides a nominated individual to deal with the claim. This person is often referred to as a claims technician/negotiator. It is the responsibility of the claims technician/negotiator to evaluate the liability of the insurer in respect of the claim submitted.

Where necessary, the claims technician/negotiator will appoint a claims assessor or loss adjustor to further investigate the reported claim and to provide recommendations to the insurer regarding their liability.

Upon receipt of the assessor or loss adjustor's report, the claims technician/negotiator will analyse the report and determine the necessary action from the insurer's office and facilitate such action as is deemed appropriate. One of the following actions could arise:

- Accept and facilitate the settlement of the claim.
- Reject the claim by sending a rejection notice to the intermediary or client.
- Escalate the claim for further investigation, legal advice or management decision, whichever is applicable.

8.4.4 Claims assessor

A claims assessor evaluates a situation and assesses the damage caused by the incident.

Claims in which an assessor's report may be required:

Burglary:

A house was burgled and a quantity of household goods was taken. The assessor would be sent to examine the circumstances and assess the nature and value of the goods stolen. He reports to the insurer that the terms and conditions of the policy have been followed, and may in addition record any suspicious circumstances.

Burst geyser:

An assessor would be sent to ascertain the division of damage between the House Owners and householders sections of the policy. For example, the geyser, ceiling, walls and fitted carpets would fall under the house owners section of the policy, whereas the loose carpets and furniture would be covered by the householders section of the policy.

Motor accident:

Assessors employed by insurers are situated at motor assessment centres. In addition they travel to where the undrivable, damaged vehicle may be stored.

8.4.5 Loss adjustor

The insurer will appoint a loss adjustor at their discretion. Loss adjustors would typically be appointed for claims arising from non-motor losses or damage.

When a loss adjustor is appointed he will:

- require full details of the cover under the policy.
- then contact the client and arrange to meet.
- investigate the circumstances of the loss and it is here that he will ensure that the terms and conditions of the policy have been complied with.
- organise quotations and liaise with repairers.
- send a final report to the insurer, who will then accept, or reject liability for the damage or loss.

If no loss adjustor is appointed, then the claims technician/negotiator must check all the documentation to ensure that he has enough information to decide or recommend on the insurer's liability.

Loss adjustors' reports

When a loss adjustor, or any investigator for that matter, sends in his report, there will be information in it that could be sensitive and could upset the client, even lead to his suing the company.

It is, therefore very important that claims technicians at insurance companies do not give copies of these reports to anyone who may in all innocence give it to the client, nor should they be given directly to the client.

These reports are paid for by the insurer and at no time are they for the consumption of the intermediary or client.

8.4.6 Legal adviser

A legal adviser may be called upon to provide advice:

- of the legal liability or otherwise of the insurer.
- on other legal implications from the information received by the insurer.
- and guidance to the claims department in the recovery of monies or salvage process once a claim has been finalised.
- where litigation may be considered.

8.5 EXPLAIN THE TYPES OF COMPULSORY LEGISLATIVE INSURANCE

8.5.1 The Road Accident Fund Act (56 of 1996)

The legislation that governs compulsory motor insurance in South Africa is the Road Accident Fund Act No 56 of 1996 (RAF) and the considerable amendments to the Act, which came about in 2008.

Swaziland, Botswana, Namibia and Lesotho have similar fuel-funded systems, however for Zimbabwe and Mozambique, one is required to take similar cover at the border.

Premium

The premium for this class of insurance is collected by means of a fuel levy. Every litre of fuel purchased includes an amount that goes towards the fund.

What is covered?

The fund will compensate any third party for loss or damage he may suffer as a result, caused by the negligence or other unlawful act, of the driver of a motor vehicle or of the vehicle owner.

In terms of the Act, there is cover only for death or injury to people, whether they are in a vehicle or as pedestrians. The identity of the negligent driver need not be established for a claim to be valid.

Limit of liability

The Road Accident Fund Act (RAF) does not include any form of property damage.

Cover is limited to the following:

- (i) Persons not in the insured vehicle, such as a pedestrian.
- (ii) Passengers being transported for a fee.
- (iii) Persons being transported in the course of the owner's business.
- (iv) Employees being transported in the course of their employment.
- (v) Persons being transported in a motorcar for the purpose of a lift club.

A cap was placed on payments for general injury, pain and suffering and disability that the fund makes to compensate third party victims of motor accidents.

A cap was introduced in respect of loss of income (disability) or support (death of a breadwinner). Payments for future loss of income to a third party will cease on the death of the third party or when he turns 65.

Payments for general injury will be paid only in the event of "serious injury". The Act defines this as a permanent injury which leads to total disablement or paralysis, or dysfunction of a vital organ based on the American Medical Association Guides, but leaving some discretion in the scope of the definition to the Minister supported by approved medical experts to "make the call".

Payment for immediate emergency medical treatment is made based on the National Health Reference Price List, as negotiated with medical service

providers. However, other treatment is recompensed at the public service provider rate.

Exception

In terms of the Act, there is one exception to this rule. If you are undergoing military service, the benefit payable is not limited, regardless of:

- the use of the vehicle (unless it is a military vehicle).
- the purpose for which you are travelling in the vehicle.

The Motor Policy

Third Parties may claim against the RAF for injuries, or their estate may claim for death, however the benefits are limited and this in no way compensates for the loss of a breadwinner or a family member in most cases.

The negligent driver may no longer be sued for medical expenses, loss of earnings, or pain and suffering.

When does cover not apply?

There is no cover in terms of the Act for:

- emotional shock from witnessing an accident.
- property that is damaged.

Administration

A claim in respect of the Road Accident Fund can be submitted to the Fund itself by the claimant, or through his legal representative.

Important considerations:

1. Property damage cannot be claimed from the Fund, it may be claimed from the offending driver.
2. An accident must be reported to the police and the Fund by the driver/owner.
3. Compensation will be reduced in relation to the claimant's own negligence.

4. Compensation for a passenger in the offending vehicle is limited to R25 000 in respect of claims arising prior to 01
5. Compensation received from the Compensation Commissioner, in a case where a person is injured on duty, is deductible.
6. The Fund may require a person to submit to investigations and medical examinations.
7. A claim may be excluded in a case where a claimant unreasonably refuses or fails to co-operate with the Fund in the course of its investigation.
8. There are certain categories of claims that the Road Accident Fund Act excludes.
9. The Road Accident Fund Amendment Act, No 19 of 2005 which came into effect on the 01 August 2008, brought about the following changes to claims arising after 31 July 2008:
 - a) The limit of R25 000 placed on the claim of a passenger in the offending vehicle has been removed.
 - b) General damages claims are subject to an assessment by a registered medical practitioner accredited by the American Medical Association, to determine the severity of the injuries suffered and whether or not the injury is to be classified as a "serious injury."
 - c) Damages for loss of support are capped at R160 000 per year in respect of each deceased breadwinner.
 - d) Damages for loss of income are capped at R160 00 per year.
 - e) The maximum amount upon which claims for loss of income and loss of support are calculated (R160 000) is subject to a quarterly inflationary adjustment.
 - f) Emergency medical treatments are payable by the Fund in accordance with prescribed tariffs. (NHRPL tariff)
 - g) Non-emergency medical treatments are payable by the Fund in accordance with the Uniform Patient Fee Schedule for full paying patients.
 - h) The exclusion of claims by members of the same household as the driver of the motor vehicle has been removed, and such claims are now permissible.

- i) The exclusion of claims by fare paying motorcycle passengers has been removed, and such claims are now permissible.

8.6 EXPLAIN WHAT THE APPLICABLE FORMULAE ARE AND HOW THEY SHOULD BE USED

8.6.1 Average

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

It is important that the insured must pay his share into the insurance pool. The premium that the insured pays is based on the amount of financial risk or value at risk.

What happens if the insured does not advise the insurer of the correct value at risk? If the insured says that it is lower than it should be, he will not be paying sufficient premium. When this happens we say that the insured is underinsured. If there is a loss then we apply what is called "average".

Average will apply where the client is underinsured, whether deliberately or accidentally. If the damage results in a total loss, the sum insured will be paid out, which amount will be insufficient for the client to replace the lost or damaged item.

If the insurance is on replacement value conditions, the basis for average is:

$$\frac{\text{Sum insured}}{\text{Cost of replacement of the whole property insured}} \times \text{loss}$$

Average applied to house owners

Example:

John owns a house. The cost to rebuild it would be R200 000. John says that he could only sell it for R100 000.

He therefore only insures it for R100 000. The house gets damaged in a storm and the damage is R10 000.

Would it be fair to pay John the full R10 000? No, because John has only paid premiums on R10 000 and he has therefore not paid his fair share into the pool. To work out indemnity, you must apply the formula for average.

$$\frac{\text{Sum insured}}{\text{Value at risk}} \times \text{loss} = \text{settlement}$$

So, for our example above:

$$\frac{\text{R100 000}}{\text{R200 000}} \times \text{R10 000} = \text{R5 000}$$

A practical example of the application of average is:

- Tom has a house and the sum insured is R1 000 000.
- The value at risk (total cost to rebuild the house) is R1 500 000.
- There is a fire and the value of loss (cost of repairs) is R500 000.
- The settlement is:

$$\frac{\text{R1 000 000}}{\text{R1 500 000}} \times \text{R500 000} = \text{R333 350}$$

However, it should be noted that where the sum insured is equal to or exceeds the value at risk, average will not apply.

Average and householders

Insurers try to prevent this by means of on-site surveys and valuations by professionals who evaluate the furniture and household contents to be insured. If a surveyor or valuator is appointed by the insurer and there is a subsequent loss, and it is shown that the valuator's figure was too low and was used as a guide by the insurer to establish the sum insured, then the following would occur, as the sum insured was based on the company's recommendations, the insured would be within his rights to insist that average could not be applied.

Even if the property was a total loss, the company would be liable for that correct amount. If litigation then followed it is likely that the courts would find for the insured.

Average and personal accident

Average is not applicable to personal accident policies, which are not policies of indemnity, or directly to liability insurance.

Average and motor

It is also rare to find average applying in motor insurance, where it is usually relatively easy to ascertain the value of the vehicle using a published vehicle value index, but, should someone end up being underinsured, the principle needs to be used in order to ensure indemnity.

Consequences of underinsurance

An insurance policy, having a sum insured or limit of indemnity will not pay out more than that amount in any one claim. In fact, under many insurances the sum insured or limit of indemnity represents the maximum amount that can be claimed in any period of insurance.

Therefore, a consequence of underinsurance is that no claim will be paid for an amount greater than the sum insured or limit of indemnity.

Example:

Suppose, for example, that Mr Jones' home is insured for R1 000 000.00 (the sum insured), and has been burnt to the ground. The compensation payable cannot exceed the sum insured, so that even if Mr Jones' home was valued at R1 500 000 at the time of the fire, Mr Jones can receive no more than R1 000 000.

However, if Mr Jones had been valued at R750 000, the insurer would have paid the full R750 000. This is because it is less than the R1 000 000 insured value of the house.

Policies of compensation

Average applies only to policies of indemnity as does subrogation and contribution. It is important to note that these do not apply to policies of compensation.

It is important to insure for the full replacement cost.

8.6.2 Betterment

The amount payable is the cost of replacing property of the same kind or type, or repairing it in as good as new, but not better than new, condition.

Replacement value conditions

If, as often happens, the only replacement available is superior to the insured item when new, the insured will have to contribute to the loss. This is called "allowance for betterment".

Reinstatement value conditions

The reinstatement ("New for Old") condition means that the new must not be superior to the old. If the new item is better than the old, the concept of "betterment" comes into force, and the insured will be required to contribute towards the cost of the reinstated item to the extent of that betterment.

The cover is restricted to an indemnity basis and the insured must have reinstated the property before any payment is made by the insurer. The average condition we looked at earlier is amended to the following formula:

$$\frac{\text{Sum insured}}{\text{Reinstatement cost of whole property at time of reinstatement}} \times \text{loss}$$

Notice that the replacement property need not necessarily be new. It must be of the same kind or type but not superior or more extensive than the insured property when new.

8.6.3 Contribution (dual insurance)

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

It has been established that insurance is intended to indemnify the insured in the case of a loss. However, what happens if there is more than one policy

covering the same item? Can the insured claim from both? This is where the policy's condition of contribution is applied.

The definition of contribution is: "... where two or more policies are in force each pays its rateable proportion of any loss".

Example:

Ester has a house, which is bonded to ABC Bank.

Ester forgot that when she took out the bond, a policy was issued to cover the house against fire and flood.

Ester wants to insure her house, so she takes out a policy through XYZ Insurance Company.

The policy through the bank has a sum insured of R100 000.

The one through XYZ has a sum insured of R150 000.

There is a fire at Ester's house that causes R10 000 worth of damage.

How will the claim be settled? Is it fair for Ester to claim under both policies? If she does claim under both, she would get R20 000, but this is not indemnity, as she will have made a profit.

What do the insurers do to ensure that this does not happen? Below, you will find an example, showing how contribution is applied.

How contribution is applied

Ester submits a claim to XYZ Insurers for the damages.

They send out a loss adjuster, who finds out that there is another policy through the bank.

Based on this finding, the insurer uses the contribution clause in the policy wording to settle Ester's claim.

This clause states that "if there are two or more policies covering the loss, each policy will pay its proportional share of the claim".

In the case above, they would work out the amounts as follows:

Policy through ABC Bank	R100 000
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Policy through XYZ Insurer	R150 000
Total Sum Insured	R250 000

The formula for adjusting the loss is:

$$\frac{\text{Sum Insured Company A}}{\text{Total Sum of all Policies}} \times \text{Loss}$$

Therefore, the insurance through ABC Bank would pay:

$$\frac{R100\ 000}{R250\ 000} \times R10\ 000 = R4\ 000$$

Therefore, the insurance through XYZ Insurance would pay:

$$\frac{R150\ 000}{R250\ 000} \times R10\ 000 = R6\ 000$$

Contribution can also be applied where it is difficult to establish blame, such as in the case of a motor vehicle collision in an intersection where both parties carry some degree of negligence. In this instance contribution would be applied in establishing how much of the damage each party would bear. This is known as contributory negligence. In every case the amount of contributory negligence is decided on the facts in each individual case.

8.7 ENDORSEMENTS AND CLAIMS

8.7.1 Endorsements after a claim

After a loss has occurred and the claim is settled there are various actions the insurer is required to take by means of an endorsement. These include:

- deletion of the item, if it is specified on the policy.
 - that an endorsement may be needed to add on the replacement item.
 - reinstatement of the sum insured, with additional premium when applicable.
 - that sometimes the insurer may need to restrict cover.
-

In cases where insured's become repetitive claimants, or where fraud has been attempted, the insurer is entitled to give the client notice of cancellation.

Summary

The claims process is the ultimate test to the insurer and client to ensure that the purpose of the insurance policy has been met.

Not only is it the requirements and terms and conditions of which one should be cautious, but also the calculations and formulae to be applied, and the appropriateness thereof.

Self-Assessment Questions

1. What are the requirements in terms of an insured peril in relation to a claim?
 - a) That the loss or damage is a result of any peril
 - b) The loss or damage must be as a result of an insured peril as stated in the policy
 - c) That the proximate cause is a hazard and an accident
 - d) The loss or damage must be deliberate act in relation to the peril

2. What are the criteria to be considered in the event of a claim being submitted to an insurer?
 - a) Whether the person was injured and how many people were hurt in the incident
 - b) Whether the person took all the necessary precautions to not allow such an accident to happen
 - c) Whether the vehicle was safely towed to a secure yard
 - d) Whether the proximate cause is an insured peril and that the terms and conditions of the policy have been complied with

3. Describe the concept of third party insurance.
 - a) Third party insurance covers damage to people other than the insured and their property.
 - b) Third party insurance covers the injury caused to other people by the insured.

- c) Third party insurance covers damage and injury caused to the insured and his property by other parties.
 - d) Third party insurance covers the damage of a third party if he has paid his premiums.
4. What is the role of the insured in the event of a claim?
- a) To admit blame for causing the accident
 - b) To ensure that the insurer understands that the insured did not cause the accident
 - c) To notify the insurer of the incident, submit all relevant details and documents to the insurer
 - d) To use forceful measures with the insurer to achieve a settlement for the claim
5. What is one of the requirements to be fulfilled in terms of the insured's burden of proof?
- a) The insured must prove insurable interest in the insured item for which the claim has been submitted.
 - b) There is no burden of proof on the insured at all.
 - c) The insured must prove that the item was properly maintained.
 - d) The insured must prove that he put up a fight in preventing an accident.
6. Which one of the following is a form of compulsory legislative insurance in South Africa?
- a) The Short-term Insurance Act
 - b) The FAIS Act
 - c) The Insurance Laws Amendment Act
 - d) The Road Accident Fund Act
7. How do insurers try to prevent the application of average in the event of a householders claim?
- a) Onsite surveys and valuations by professional valuers
 - b) Insist that the price tag remains on the items in the house
 - c) Request a video tour of the insured property
 - d) Request receipts of payment for each item
8. When is the principle of betterment applied?
- a) When the insured wants a better asset than the one he had
 - b) When the cost of the new item is similar to that of the original insured item
 - c) When the cost of replacing an insured item is higher than the original value of that item

- d) When the cost of replacing an insured item is cheaper than the one lost or damaged
9. When does contribution (dual insurance) apply?
- a) When the same risk in the event of a claim is insured by two different insurers
 - b) In the case of a stokvel, when each person pays a part of the claim
 - c) When an insured pays for a portion of the claim himself
 - d) When there are two combined causes that resulted in damage or loss
10. Under which circumstances is an endorsement required after settling a claim?
- a) When the insured submits the valuation certificate for the item
 - b) The deletion of the lost item if it is specified on the policy
 - c) When the item is found by the police
 - d) When the claim was caused by a drunk third party and his driver's license is suspended

Self-Assessment Answers

1. What are the requirements in terms of an insured peril in relation to a claim?
- a) That the loss or damage is a result of any peril**
 - b) The loss or damage must be as a result of an insured peril as stated in the policy
 - c) That the proximate cause is a hazard and an accident
 - d) The loss or damage must be deliberate act in relation to the peril
2. What are the criteria to be considered in the event of a claim being submitted to an insurer?
- a) Whether the person was injured and how many people were hurt in the incident
 - b) Whether the person took all the necessary precautions to not allow such an accident to happen
 - c) Whether the vehicle was safely towed to a secure yard

- d) **Whether the proximate cause is an insured peril and that the terms and conditions of the policy have been complied with**
3. Describe the concept of third party insurance.
- a) **Third party insurance covers damage to people other than the insured and their property.**
- b) Third party insurance covers the injury caused to other people by the insured.
- c) Third party insurance covers damage and injury caused to the insured and his property by other parties.
- d) Third party insurance covers the damage of a third party if he has paid his premiums.
4. What is the role of the insured in the event of a claim?
- a) To admit blame for causing the accident
- b) To ensure that the insurer understands that the insured did not cause the accident
- c) **To notify the insurer of the incident, submit all relevant details and documents to the insurer**
- d) To use forceful measures with the insurer to achieve a settlement for the claim
5. What is one of the requirements to be fulfilled in terms of the insured's burden of proof?
- a) **The insured must prove insurable interest in the insured item for which the claim has been submitted.**
- b) There is no burden of proof on the insured at all.
- c) The insured must prove that the item was properly maintained.
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7. How do insurers try to prevent the application of average in the event of a householders claim?
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- a) **Onsite surveys and valuations by professional valuers**
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 - c) Request a video tour of the insured property
 - d) Request receipts of payment for each item
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- a) When the insured submits the valuation certificate for the item
 - b) **The deletion of the lost item if it is specified on the policy**
 - c) When the item is found by the police
 - d) When the claim was caused by a drunk third party and his driver's license is suspended

Chapter

9

Recovery/mitigation of losses

This chapter covers the following criteria:

KNOWLEDGE CRITERIA

Explain the process of salvage of goods and recovery of money.

Explain the legal rights of recourse (i.e. subrogation) available to the relevant parties.

SKILLS CRITERIA

Determine available recourse/recovery actions.

Determine the involvement of the client in this process

Advise the client of actions/process to be taken and implement recovery action where appropriate.

Establish the relative interest of the parties in any recovery achieved.

Settle between the parties involved.

Record finalisation of recovery/mitigation settlement.

Purpose

An insurance claim seldom ends at the claim being settled with the client. There are additional processes that insurers practice to recover their cost of claims.

9.1 EXPLAIN THE PROCESS OF SALVAGE OF GOODS AND RECOVERY OF MONEY

9.1.1 Recoveries

Recoveries, is a means of controlling the cost of claims for an insurer to recover some of their expenses spent on claims.

When a claim is reported, consideration is given to:

- third party liability – whether an act by a third party contributed to, or caused the loss, as this could result in recoveries from a third party by means of subrogation.
- reinsurance or co-insurance – whether the insured peril and item are covered by another insurer, which could result in contribution being applied, thereby reducing the cost of the claim for the insurer.
- salvage potential – whether the insured item could be salvaged in any way and sold, or used as parts.

It may happen that more than one recovery option exists, such as subrogation under co-insurance, in which case the processes need to happen simultaneously.

All recovery actions taken must be documented and communicated to the client, where appropriate.

9.1.2 Salvage of goods

Salvage is where the insurer has accepted a claim in respect of a loss of an insured asset including those that are beyond repair. Such assets become the property of the insurer. Motor salvage is probably the most common example,

but there can also be salvage under the householders, all risks and even house owners cover.

Examples of these can include:

- motor vehicles beyond repair, written off as a total loss.
- furniture, household goods or appliances damaged beyond future use in a fire or flood or stolen.
- building materials damaged by fire or flood.
- stolen vehicles and other articles recovered through police intervention.

The salvage process includes the following:

- Notification and investigation
- Evaluation
- Negotiation and settlement

Notification and investigation

The insured is contacted to establish the condition and value of the salvage and whether or not the insured would choose to retain the salvage.

Salvage of boats and caravans would usually be investigated and evaluated by an engineer.

Evaluation

Evaluation of salvage is generally done when the insured cannot establish a value for the salvage, in which case an assessor or loss adjustor may be contracted, or if the ownership of the item is disputed following the recovery of a lost or stolen item.

It is also necessary to evaluate the cost of collecting and disposing of the salvage as there are cases where this may prove to be uneconomical such as a cell phone that has been damaged.

Another example of an uneconomical salvage could be where a vehicle crashed into a gorge in a mountain pass, and the cost of retrieving the vehicle from the gorge is too expensive.

Negotiation and settlement

Should be insured wish to keep the salvage, a lesser settlement is negotiated, based on an offer consistent with the value of the salvage. However, should an insured not wish to keep the salvage, the insurer will arrange the collection thereof, and dispose of the item if the damage is irreparable.

When ownership is disputed, contact may be made with the insured to see whether a settlement is possible. Should negotiation not be possible, the claim may be referred to the legal department for further action, if necessary.

There are companies in the market place who purchase salvage from insurers. The insurer can of course offer the salvage to the insured, but would then normally deduct an amount from the claim to the value thereof.

The amount could be either:

- an amount agreed on between the insured and the insurer.
- the amount the insurer would be able to recover if sold on the open market.

Salvage which is recovered is subject to VAT in the same way any other form of supply is, but the payment need only be made when the insurer has sold the salvage. When the insurer sells the salvage the insurer must issue a tax invoice.

Recoveries from third parties are not regarded as consideration for supply of service and are therefore not subject to VAT.

Average and salvage

If there is underinsurance and there is salvage the client is entitled to his rateable share of the salvage recovery. Such an example could be water damage to furniture:

- A total loss of R50 000
- The sum insured is R25 000
- There is therefore 50% underinsurance
- Sale of the salvage realises R10 000
- The client would be entitled to R5 000 of the salvage monies.

Vehicle a "write-off"

When the vehicle is damaged beyond economical repair, usually to the extent of 70% of the value of the vehicle, the insurers treat the vehicle as a "write-off" and will pay the insured (or finance house if its interests are noted in the policy), the reasonable market or retail value of the vehicle in its pre-accident state.

The excess will be deducted from the settlement. Insurers will then take over the salvage to sell for their own account.

Cash in lieu

It does happen that an insured specifically requests cash in lieu of a write-off, in which case the insured may keep the salvage and the settlement is adjusted accordingly. Insurers are reluctant to do this because they normally have salvage contracts with salvage contractors who are bound by the agreement to accept all wrecks no matter their condition.

In some instances, the insured prefers to keep the "reasonably good wreck", which is without too much damage, as they may be able to repair the vehicle with second-hand parts.

The insurer would then reduce the settlement figure by the amount or percentage that they would receive from their salvage contractors. This may happen where the insured owes more than the market value to a finance house and believes that he can in fact have the vehicle restored to a roadworthy condition. This is why finance houses and insurers often offer "Credit Shortfall" cover.

In this case the cover in terms of the policy - both own and third party damage - should be suspended until such time as an engineer's report is received confirming the repairs are complete and the vehicle is roadworthy.

9.1.3 Subrogation

The principle of subrogation has been discussed and applied in previous chapters, however, the subrogation process in a recovery would be as follows:

- Notification – the insured must be notified of the insurer's intention to take over the rights of the insured in claiming against the third party.
- Investigation – regarding the circumstances and to determine the economic viability of proceeding with the legal process.

- Evaluation and negotiation – to determine whether a legal case exists, or to negotiate a settlement arrangement with the third party.
- Settlement – requesting reimbursement upon the third party accepting responsibility, or legal liability is proven in court.

It is imperative for the insurer to keep the insured informed throughout the above process and to document any decisions made or settlements reached.

9.1.4 Contribution (dual insurance)

Once the involvement of another insurer has been identified, the following steps are taken:

- Notification – the insurer approaches the dual insurer to confirm interest and policy cover provided.
- Investigation – establishing that the policies provide substantially the same cover, and that the subject matter and insurable interest is the same under both policies.
- Evaluation and negotiation – to determine the amount each insurer is liable for in terms of the claim.
- Settlement – each insurer pays their portion to the insured.

It is imperative for the insurer to keep the insured informed throughout the above process and to document any decisions made or settlements reached.

9.1.5 Recovery of money

When an insurer has accepted and paid for the repair of the damage of an insured's vehicle, and the accident was caused by the negligence of an insured third party, the insurer may recover their financial expense from the third party. This course of action is available to the insurer in terms of the principle of subrogation.

Reminder (Chapter 1)

The principle of subrogation entitles the insurer to claim against the insurer of a third party, to recover their costs paid as if they are the insured.

9.1.6 Reinsurance

The loss may be reinsured, in which case the reinsured portion of the loss is recovered from the reinsurer.

9.2 EXPLAIN THE LEGAL RIGHTS OF RECOURSE AVAILABLE TO THE RELEVANT PARTIES

9.2.1 Who has a legal right of recourse?

Any person who suffers loss or damage has a legal right of recourse however, as an insured individual, the insurer, having paid for the repair of damage or loss would be able to recover their outlay through the principle of subrogation, as if they were the insured.

If the person is not insured, and is the victim of an occurrence, they may claim against the third party by:

- sending a letter of demand and
- threatening to institute a civil action at law in the small claims, magistrate or high court.

9.2.2 What legal right of recourse is available to the relevant parties?

There are various actions of recourses available to the insurer including:

- subrogation
- recovery/salvage of goods, and/or
- legal process

The right of recourse to the insured is to report the incident to the FAIS or Short-term Ombud or to follow a legal process through the courts.

Summary

Effective recovery procedures are essential to the profitability of an insurer.

Such recoveries may include:

- recovery of money
 - salvage of goods or
 - litigation processes through the courts.
-

Self-Assessment Questions

1. What does the process of recovery aim to achieve?
 - a) For the insurer to gain a profit
 - b) Recovery of financial expenses paid by insurer for the costs of claims
 - c) To ensure the least possible payment is made by the insurer
 - d) To prolong the settlement of claims

2. If a speedy settlement is not reached, what other form of recourse is available to the insurer?
 - a) To follow a legal process
 - b) To abandon the settlement of a claim
 - c) To sell all salvage items of the insured before the claim is settled
 - d) To report the case to the Ombudsman

3. What recourse action is available to the insured if settlement is not reached?
 - a) To request a second opinion from another insurer
 - b) To demand interest on his premiums paid
 - c) To report the case to the FAIS or Short-term Ombud
 - d) To fraudulently amend the claim form

Self-Assessment Answers

1. What does the process of recovery aim to achieve?
 - a) For the insurer to gain a profit
 - b) Recovery of financial expenses paid by insurer for the costs of claims**
 - c) To ensure the least possible payment is made by the insurer
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 - a) To follow a legal process**
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3. What recourse action is available to the insured if settlement is not reached?
 - a) To request a second opinion from another insurer
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 - c) To report the case to the FAIS or Short-term Ombud**
 - d) To fraudulently amend the claim form