INVESTMENT INSURANCE

2 PAPER

2 TOPIC

NON-COMPULSORY INSURANCE

- Non-compulsory insurance is voluntary/the insured has a choice whether to enter into an insurance contract.
- Insured will enter a legal insurance contract with the insurer, who may be represented by an insurance broker.

INSURANCE CONCEPTS

Over-insurance

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

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Under-insurance

- Occurs when items/assets are insured for less than its market value.
- The insured will be compensated partly for losses/damages, in the event of a claim.

Average clause

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

Reinstatement

- It is a stipulation whereby the insurer may replace lost/damaged property/goods instead of reimbursing.
- This stipulation is applicable when property/goods are over insured.

Excess

- The amount the insured agrees to pay upfront as stipulated in the insurance policy.
- Higher excess amounts keep the insurance premium lower and discourage fraud.

OVER AND UNDER INSRUANCE

Explain the differences between over and under insurance

OVER INSURANCE	UNDER INSURANCE
Property / assets are insured for more than their actual market value.	Property/Assets are not insured for their full market value.
The insured will not receive a payout larger than the value of the loss at market value.	The insured will only be paid out for the amount that the goods/assets are insured for.

INSURANCE AND ASSURANCE

Differentiate/Distinguish between insurance and assurance. Give examples.

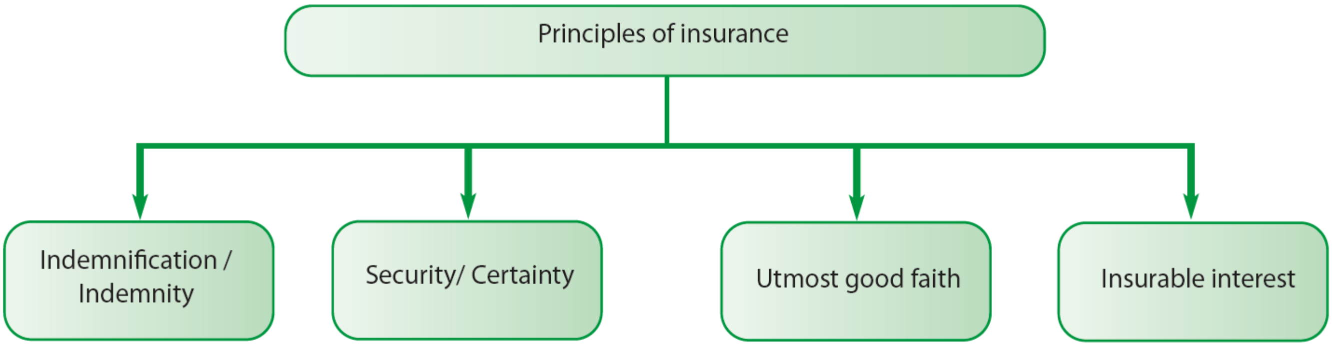
INSURANCE	ASSURANCE
Based on the principle of indemnity.	Based on the principle of security/certainty.
Applicable to short-term insurance.	Applicable to long-term insurance.
Examples: • Property insurance • Money in transit • Theft • Burglary • Fire	Examples: • Life insurance • Endowment policy • Retirement annuity

SHORT AND LONG-TERM INSURANCE

Name/Give examples of short term and long-term insurance.

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

PRINCIPLES OF INSURANCE



Name/Explain/ Discuss the following principles of insurance:

Indemnification/Indemnity

- Usually applies to short term insurance, as the insured is compensated for specified/proven harm/loss.
- Insurer agrees to compensate the insured for damages/losses specified in the insurance contract, in return for premiums paid by the insured to the insurer.
- Protects the insured against the specified event that may occur.

Security/Certainty

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

Utmost good faith

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

Insurable interest

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

Identify the above-mentioned principles of insurance from given scenarios/statements.

AVERAGE CLAUSE CALCULATION

Apply the average clause to calculate the compensation in the case of under-insurance.

$$\frac{Amount\ insured\ x\ amount\ of\ damage/loss}{Value\ of\ insured\ item}$$

IMPORTANCE OF INSURANCE

Explain/Discuss the advantages/importance of insurance.

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

INSURABLE AND NON-INSURABLE RISK

Explain the meaning of insurable and non-insurable risks.
Outline/Give examples of insurable and non-insurable risks

INSURABLE RISK	NON-INSURABLE RISK
These risks are insured by insurance companies.	These risks are not insured by insurance companies as insurance cost/risks are too high/remains the responsibility of the business.
Examples: • theft • fidelity insurance • burglary • money in transit • fire • natural disaster/storms/wind/rain/hail • damage to/loss of assets • injuries on premises.	Examples: • losses/damages incurred as a result of a war • fluctuations in fashion and trends • losses/damages incurred as a result of illegal marketing activities • new inventions were created by the improvement in technology.

COMPULSORY INSURANCE

Explain/Elaborate on the meaning of compulsory insurance.

- Compulsory insurance refers to insurance that individuals/businesses are compelled to take out.
- Individuals/Businesses are legally obliged to insure against certain risks that may or may not occur.

Explain/Differentiate/Distinguish between compulsory and non- compulsory insurance and give examples.

COMPULSORY INSURANCE	NON-COMPULSORY INSURANCE
Required by Law/there are legal obligations for it to be taken out and paid for	Is voluntary/the insured having a choice whether to enter an insurance contract
The types of risks are regulated by the state.	The state does not regulate these types of risk.
Examples: • Unemployment Insurance Fund [UIF] • Road Accident Fund [RAF] • Compensation for Occupational Injuries and Diseases Fund and Diseases Act [COIDA]	Examples: • short term insurance • long term insurance

TYPES OF COMPULSORY INSURANCE

Discuss/Explain types of compulsory insurance e.g.,

1. Unemployment Insurance Fund (UIF)

- The UIF provides short term benefits to workers who have been working and become unemployed for various reasons.
- Businesses are compelled to register their employees with the fund and pay the 2% levy contributions to SARS/UIF monthly.
- Employees contributes 1% of their basic wage to UIF.
- Businesses contribute 1% of basic wages towards UIF, therefore reducing the expense of providing UIF benefits themselves.

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

- RAF/RABS insures road users against the negligence of other road users.
- The RAF/RABS provides compulsory cover for all road users in South Africa, which include South African businesses.
- The amount that can be claimed for loss of income is limited by legislation.
- Injured parties and negligent drivers are both covered by RAF/RABS.

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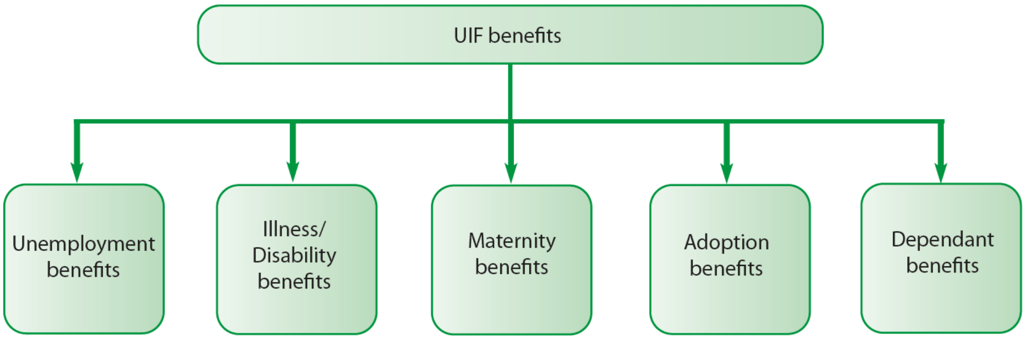
3. Compensation for Occupational Injuries and Diseases Fund (COIDA).

- The fund covers occupational diseases and workplace injuries.
- Compensates employees for injuries and diseases incurred at work.
- Compensation paid is determined by the degree of disablement.
- Employees do not have to contribute towards this fund.

UIF BENEFITS

Explain the types of benefits paid out by the UIF.



Unemployment Benefits

- Unemployed employees may only claim if they contributed to UIF.
- Unemployed employees enjoy these benefits until the allocated funds are exhausted.

Illness/Disability benefits

- Employees may receive these benefits if they are unable to work for more than 14 days without receiving a salary/part of the salary.
- Employees may not claim these benefits if they refuse medical treatment.

Maternity benefits

- Pregnant employees who contribute to the UIF receive these benefits for up to 4 consecutive months.
- If an employee had a miscarriage, she could claim for up to six weeks/42 days.

Adoption benefits

- Employees may receive these benefits if they have legally adopted a child younger than two years.
- Only one parent/partner may claim benefits.

Dependant's benefits

- Dependants may apply for these benefits if the breadwinner, who has contributed to the UIF dies.
- The spouse of the deceased may claim, whether he/she is employed or not.

Identify types of compulsory insurance from given scenarios/statements.

Keep abreast of the changes in legislation from time to time e.g., the RAF is currently changing to the RABS (Road Accident Beneficiary Scheme).