INVESTMENT INSURANCE

2 PAPER

2 TOPIC

NON-COMPULSORY INSURANCE

- Refers to insurance where the insured has the option of insuring against certain risks that may or may not occur.
- The decision to insure an asset/risk, lies solely with the insurer and is not influenced by the government.

INSURANCE CONCEPTS

Over-insurance

- It occurs when assets/risks are insured for more than its market value by the insured.
- Compensation will not be more than the market value of the item/asset in the event of a claim.

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 the insured.
- This stipulation is applicable when property/goods are over insured.

Excess

- It is not paid out to the insured when a claim is settled.
- Excess is the amount the that the insured agrees to pay should they claim for losses/damages.

OVER AND UNDER INSRUANCE

<u>Explain the differences between over and under insurance</u>

OVER INSURANCE	UNDER INSURANCE
The insured insures assets/possessions for more than the market value.	The insured insures assets/possessions for less than the market value.
Compensation by the insurer will not be more than the market value of the items damaged/loss.	The insured will be compensated partly for damages/losses incurred.

INSURANCE AND ASSURANCE

<u>Differentiate/Distinguish between insurance and assurance. Give examples.</u>

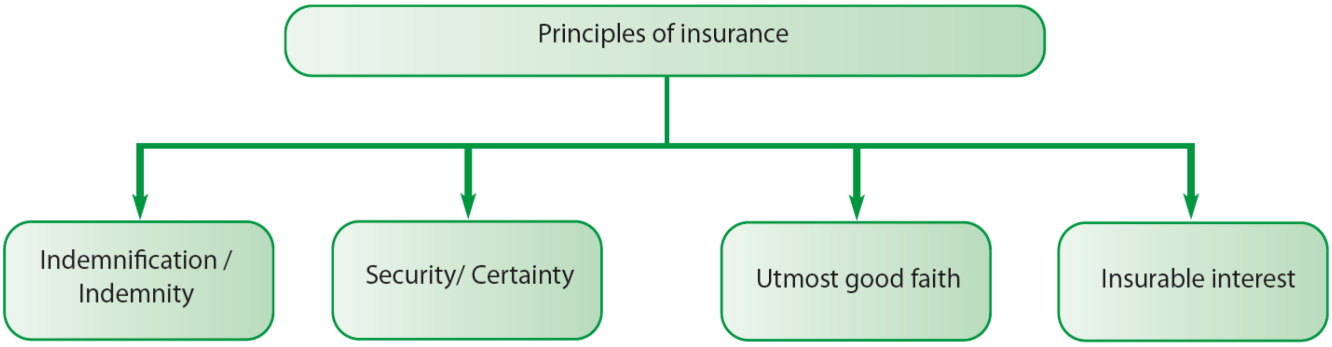
INSURANCE	ASSURANCE
Based on the principle of indemnity.	Based on the principle of security/certainty.
Applicable to short-term insurance.	Applicable to long-term insurance.
Examples: • Property insurance • Cash in transit • Theft • Burglary • Fire	Examples: • Life insurance • Endowment policy • Retirement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

SHORT AND LONG-TERM INSURANCE

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

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



<u>Name/Explain/ Discuss the following principles of insurance:</u>

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 has to 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

<u>Apply the average clause to calculate the compensation in the case of under-insurance.</u>

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

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.
Insurance companies decide on the likelihood of an event and then decide if they want to insure the risk.	The insurance company cannot calculate the profitability of the risk and therefore they cannot work out a premium that the business must pay.
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
Businesses/Individuals are compelled by law to insure certain types of risks.	Businesses/Individuals voluntary insure certain types of risk.
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 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 Unemployment Insurance Fund (UIF) was established to assist employees with financial aid should they become unemployed due to termination of the employment contract by the employer.
- The employer is required to register their employees with the UIF and to pay the levy of 2% of the employee's salary to SARS every month.
- The employee contributes 1% of his/her salary towards the UIF.
- The employer contributes an additional 1% of the employee's salary towards the UIF fund.

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

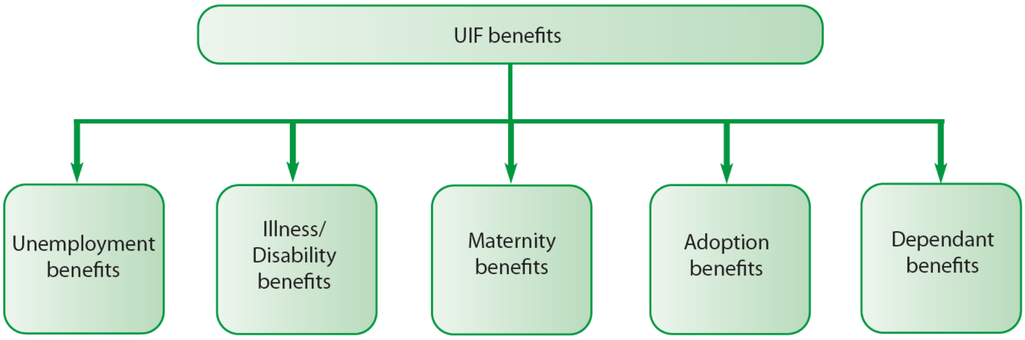
- The RAF/RABS is responsible for providing appropriate cover to all road users within the borders of South Africa.
- The Fund compensates a person/people in accordance with the RAF/RABS Act for loss or damage wrongfully caused by driving a motor vehicle.
- Contributions to the RAF/RABS are collected by way of a levy on fuel used for road transportation.
- The cover extends to all members of society including, pedestrians, owners, and drivers of motor vehicles, as well as their passengers.

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

- The Compensation for Occupational Injuries and Diseases Act (COIDA) covers occupational diseases and injuries sustained by employees during the performance of their official duties.
- The levy paid to the Compensation Fund is the responsibility of the employer.
- No contributions from the employee are required towards the Compensation Fund.
- Should an employee die as a result of a work-related accident/disease, his/her dependant(s) will receive financial support.

UIF BENEFITS

Explain the types of benefits paid out by the UIF.



Unemployment Benefits

- If the employer terminates the service of an employee, the employee may apply to the UIF for benefits.
- The benefits are only available to unemployed employees who have been contributing to the UIF while they were employed.

Temporary Employer/Employee Relief Scheme (TERS)

- All employers and employees who are registered with the Department of Employment & Labour can apply for this relief.
- The scheme applies to employers who cannot pay their workers and employees who will not get paid during the period of the lockdown.

Illness/Disability benefits

- An employee may apply for illness/disability benefits if he/she is an employed contributor to the UIF and is unable to perform his/her duties because of illness/disability.
- To qualify for the benefits, the employee must receive less than his/her normal wages while he/she is on sick leave.

Maternity benefits

- An employed female contributor to the UIF may apply for maternity benefits when she goes on maternity leave.
- To qualify for the benefits, she must be receiving less than her normal wages while she is on maternity leave.

Adoption benefits

- A contributing employer may claim adoption benefits if he/she has legally adopted a child younger than two.
- To qualify for the benefit, the contributing employer must apply for a leave of absence/stop working to look after the adopted child.

Dependant's benefits

- The dependants of a contributor to the UIF may claim this benefit following that person's death.
- The following people are considered dependants according to the UIF rules: spouse/life partner/guardian/child of the deceased contributor.

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).