

CLASS OF BUSINESS TRAINING

SHORT TERM INSURANCE: COMMERCIAL LINES

2021

Class Two



NKWALI TRAINING
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Class of business training legislative requirement

The Financial Sector Conduct Authority (FSCA) **Board Notice 194 of 15 December 2017: Determination of Fit and Proper Requirements** stipulates that a Financial Service Provider (FSP) and a representative must complete the class of business (CoB) training relevant to those financial products for which they are authorised **prior** to rendering any financial service in respect of such products.

A key individual must, likewise, complete the CoB training in respect of the classes of business for which he/she is approved to act as key individual **prior** to managing the rendering of any such financial services.

The Determination of Fit and Proper requirements define “Class of business training” as training in respect of a specific class of business and which training is provided and assessed by an accredited provider or an education institution.

The Class of Business training applies to the following:

- All FSPs, Key Individuals and Representatives appointed after 1 April 2018.
- FSPs, Key Individuals and Representatives who seek authorisation, approval or appointment for new financial product categories after 1 April 2018.
- Representatives working under supervision as of 1 April 2018 or appointed under supervision after 1 April 2018.
- Certain exemptions apply, depending on the type of business one does, and how it is conducted. Please contact your compliance officer if in doubt.

FSPs, KIs and Reps, authorised prior to 1 April 2018 are considered to have completed the CoB training in view of their past experience and are therefore exempt from CoB training, unless they add new products to their licence.

Introduction

An overview introduction to the class of business. The various classes available are as follows:

- Fire
- Buildings Combined
- Office Contents
- Business interruption
- Theft
- Money
- Glass
- Fidelity Guarantee
- Goods in Transit
- Business All Risk
- Accidental Damage
- Public Liability
- Stated Benefits/ Group Personal Accident
- Motor
- Electronic Equipment
- Motor Traders
- Umbrella Liability
- Machinery Breakdown.

CHAPTER 1: Introduction to Commercial Insurance

Learning outcomes

By the end of this chapter, you should be able to:

- Explain and understand the roles of the parties involved in delivering commercial insurance products.
- Describe the responsibility of, and roles of the different organisations in the insurance industry
- Illustrate an understanding of the impact of each role player in the delivery of insurance products.

1.0 Introduction

As Benjamin Franklin said – “there are only two certainties in life that is death and taxes.” In a world full of uncertainties how do we navigate life? Well, that is where insurance comes in, by helping to smooth out these uncertainties in the form of risk transfer.

There are different types of insurances available for businesses which help with protection against uncertainties or unforeseen circumstances commonly known as “Commercial insurance.”

Commercial insurance applies to businesses only and not to individuals in a domestic situation. Different businesses have different insurance needs, for example a multinational company is exposed to different risks as compared to a one man show plumbing business and therefore needs different insurance products.

This module is designed to help with understanding the commercial insurance product. It should be noted that due to the ever-changing business environment insurance products are also constantly changing to meet the requirements of businesses. Therefore, new products are being designed and developed to meet the emerging risks.

Besides risk transfer some business sectors buy insurance products as it is compulsory, for example Doctors need Medical Malpractice, Engineers require professional indemnity.

1.1 Key role-players in a commercial lines insurance environment

There are several role players in the Commercial insurance sector, all of which play a pivotal role in delivering the commercial offering to clients. These are: -

- Intermediaries/Brokers
- Underwriting Managers
- Risk Assessors / Engineers
- Loss Adjusters
- Insurers
- Reinsurers
- Regulation / The insurance Ombudsman.

a) Intermediaries

Facilitate the placement of insurance policies. They are the go-between between an insurer and a client. They determine the client's needs and give advice on suitable products.

b) Underwriting Managers

Underwriting Managers are businesses or companies who provide a service to intermediaries and insurance companies. They mostly provide specialised or niche products for example Marine and Engineering, although not all Underwriting Managers are specialists.

c) Risk Assessor/ Engineers

Some businesses have hazardous operations or complicated activities, insurers therefore make use of risk engineers to assist with pricing and risk management to prevent large losses.

d) Loss adjusters

A loss adjuster is appointed by an insurance company to investigate a complex claim and verify if the claim is covered by the insurance policy.

e) Insurers

Also known as an underwriter, are companies that undertake to compensate clients in the event of a loss. They are the risk carrier.

f) Reinsurers

Is a company that an insurer buys cover from, to protect themselves against major/ big losses. They insure the insurer.

1.2 The Legal Environment

Insurance contracts are regulated by the Short-term Insurance Act 53 of 1998 amended by the Insurance Act, 18 of 2017.

The majority of the changes to the Short-term Insurance Act Regulations relate to the circumstances in which an insurer may enter into a binder agreement, the respective rights and obligations of the insurer and binder holder, and the remuneration that may be paid to the binder holder. The amendments enhanced consumer protection and introduced Policy holder Protection Rules (PPR).

1.2.1 The Financial Advisory and Intermediary Services Act (FAIS), 37 of 2002

This Act aims to regulate the giving of advice and rendering of intermediary services to clients, the Act impacts on most financial institutions, financial service providers and their representatives like banks and insurance companies.

The Purpose of the FAIS Act is to:

- Protect consumers of financial products and services
- Regulate the selling and advice-giving activities of Financial Services providers (FSP)
- Ensure that the consumer is provided with adequate information about the financial product they use.

The FAIS Act achieves the above by:

- Making sure all FSPs are registered
- Ensuring all service providers are adequately qualified
- Creating a code of conduct
- Defining duties in terms of compliance
- Establishing guidelines for record maintenance, accounting and audit requirements
- Providing mechanisms for enforcement and complaint procedures.

Insurers and intermediaries when providing or offering products need to do so in the confines of the regulatory provisions. As failure to do so results in the withdrawal of operating licence or penalties.

1.2.2 FAIS General Code of Conduct

The General Code of Conduct applies to financial services providers; insurers included and their representatives and intermediaries. Representative means financial adviser.

The Code is presented in 16 parts including provisions relating to: product suppliers (III); identification and financial condition (IV); client contact (V); particulars of relevant financial service (VI); and consequences of transactions and termination of financial services business (VII). Other matters concern assets held on behalf of clients, records of advice, advertising, complaints and compliance.

The Code applies in respect of the rendering in any particular case of any financial service to a client, and shall be binding on those 'primarily involved with the client':

- A representative;
- A financial services provider; and,
- A financial services provider having one or more representatives.

Persons must act 'honestly, fairly, with due skill, care and diligence, in the interests of clients and the integrity of the financial services industry.'

The main particular obligations in the rendering of a financial service are:

- Representations made and information provided to a client must be accurate and not misleading;

- Client requests must be executed in his interests, and promptly in accordance with his instructions;
- Such instructions must have 1 priority over the representative's own interests;
- Transactions executed on behalf of a client must be promptly and fairly allocated to his accounts;
- Recommendations to a client to switch within a combination of financial products or between financial products must not be made, nor must such a switch be effected in the exercise of a discretion, unless the switch is appropriate to the needs of the client; and,
- The representative involved must not deal in any financial product for his own benefit, where based on advanced knowledge of pending transactions for or with clients.

1.2.3 Short-term Insurance Act, 53 of 1998

The Short-term Insurance Act provides for the registration of short-term insurers and the control of certain activities of short-term insurers and intermediaries. It falls under the authority of the Minister of Finance, but for all intents and purposes is administered by the Commissioner of the Financial Sector Conduct Authority (FSCA).

Its key provisions includes prohibition of certain activities for example it prohibits any person from performing any act which indicates that he carries on the business of short-term insurance, or is authorised to do so, unless he is registered and policyholder protection.

1.2.3 Insurance Act, 18 of 2017

The Insurance Act amends some parts of the Long-Term Insurance Act (LTIA), Short Term Insurance Act (STIA) and more specifically the Policyholder Protection Rules (PPR), creating new opportunities for existing insurers and providing for licensed micro-insurance products.

The Act requires insurers to go through a process with the Prudential Authority to convert their current licences and, if part of their strategy, apply for a micro-insurance licence which can include a number of different life and non-life classes of insurance. It also differentiates between registered insurers and licensed insurers.

1.3 Regulators

There are two regulators, under the twin peaks model of regulation that regulate the activities of short-term insurers and intermediates. These are the:

- Financial Sector Conduct Authority
- Prudential Authority.

a) Financial Services Conduct Authority (FSCA) formerly known as Financial Services Board (FSB)

The FSCA is the market conduct regulator of financial institutions, that provide financial products and financial services, financial institutions that are licensed in terms of a financial sector law, including banks, insurers, retirement funds and administrators, and market infrastructures.

(Extract from the FSCA website www.fsc.co.za). You can visit the website to learn more about the organisation.

b) Prudential Authority

The Prudential Authority was established following the enactment of the Financial Sector Regulation Act 9 of 2017 (FSR Act). The organisation is a function of the South African Reserve bank.

The purpose of prudential regulation and supervision is to ensure that financial institutions operating within the financial system are inherently safe and sound, from a financial perspective. The focus of prudential regulation and supervision is to ensure that financial institutions comply with minimum prudential requirements related to capital, liquidity, leverage and other relevant metrics that measure financial health, as well as to ensure that they are managed by suitably qualified and skilled individuals.

(Extract from the Reserve of SA website www.resbank.co.za)

1.4 Insurance associations

a) Financial Intermediaries Association of South Africa (FIA)

Strives to protect and develop the professional service of our members and their employees so consumers can benefit from the value of advice, risk management and product fulfilment in today's DIY world.

(Extract from FIA Website www.fia.org.za). You can visit the website to learn more about the organisation.

FIA represents its members interests to the stakeholders in the financial services industry, for example interacting with the Prudential Authority, National treasury to ensure that all regulation passed is unfair to its members as well as consumers.

b) The South African Insurance Association (SAIA)

Is the representative body of the non-life insurance industry. It represents the industry to all relevant stakeholders to ensure a sustainable and dynamic industry. SAIA has 58 members, comprising all categories of non-life insurers, including reinsurers.

(Extract from SAIA website www.saia.co.za). You can visit the website to learn more about the organisation.

SAIA is the SAIA is the industry organisation that gives a 'voice' to the insurance industry, lobbying government, representing the insurance industry in the media, setting standards for its members and facilitating information-flow. This is done by tackling issues like insurance fraud, SAIA was very much instrumental in setting up the Insurance crime bureau. Finding ways of reducing insurance risks like finding ways to promote road safety.

c) South African Special Risks Association (SASRIA)

SASRIA SOC Ltd is the only short-term insurer that provides special risk cover to all individuals and businesses that own assets in South Africa, as well as government entities. This is unique cover against risks such as civil commotion, public disorder, strikes, riots and terrorism, making South Africa one of the few countries in the world that provide this insurance, particularly at affordable premiums.

(Extract from SASRIA website www.sasria.co.za). You can visit the website to learn more about the organisation.

SASRIA provides cover for those risks that insurers are not prepared to give, however this is done through the insurers. When one takes out Commercial insurance, SASRIA is included in the offering and the premiums are submitted to SASRIA by insurers.

d) South African Underwriting Managers Association (SAUMA)

Is an association for underwriting managers in South Africa representing underwriting managers.

(Extract from SAUMA website www.sauma.org). You can visit the website to learn more about the organisation.

e) Ombudsman of the Short-Term Insurance Industry

The Office of the Ombudsman provides consumers with a free, efficient and fair dispute resolution mechanism.

(Extract from the OSTI website www.osti.co.za) You can visit the website to learn more about the organisation.

f) The Insurance Crime Bureau

It is a non-profit company dedicated to fighting organised insurance crimes and fraud. It also provides a platform for the public to report fraudulent activities or suspected insurance crimes safely and anonymously through the toll-free Insurance Fraud line.

1.5 Suitability of commercial lines insurance

Commercial Lines Insurance refers to insurance policies that cover any business or commercial activity.

Commercial insurance is sold to businesses of all sizes from small to medium enterprises such as the corner milk bar or a local building (typically referred to as Small-Medium Enterprise or SME) through to very large corporations such as the JSE Top40 (the 40 largest companies by market capitalisation at the Johannesburg Stock Exchange).

The definition of what fits into each category can vary significantly by insurer. Key Commercial portfolios are generally grouped into three segments:

- Small, micro to medium enterprise (SMMEs) – cover for small business
- Corporate – cover for big business
- Speciality Classes – cover for special risks like marine, workers compensation and construction.

No matter the nature of business, commercial insurance is required as it helps the business to cover its property and liabilities against any major perils and risks that may befall a business.

Commercial lines Insurance helps keep the economy running smoothly by protecting businesses from potential losses they could not afford to cover on their own, which allows businesses to operate when it might otherwise be too risky to do so.

1.6 Pricing of commercial insurance

In a typical Commercial insurer, there are three key roles which have responsibilities for the different aspects of the pricing process. These roles are

a) Pricing Actuary – has the responsibility for providing technical analysis to support the strategic direction of the portfolio. This includes:

- Calculating the technical premium which is the amount required to meet the financial targets of the organisation at a granular level
- Providing recommended book premium changes and assisting portfolio managers to understand the likely result of the proposed changes
- Monitoring of the key performance metrics of the portfolio including the underlying profitability, movements in volumes and the impact of pricing changes.

b) Underwriting Manager – has the responsibility for looking holistically at the portfolio and uses financial and management information reports, actuarial advice and an understanding of industry trends to make business decisions about the strategy and pricing of the portfolio.

The key responsibilities of the Underwriting Manager include

- Developing and driving the overall strategy for the portfolio

- Setting the book premium for the portfolio; calculated by applying an algorithm based on a number of risk characteristics. The book premium takes into account the technical premium with an overlay based on underwriting judgement and the state of the market
- Identifying target segments for growth
- Setting underwriting standards and auditing individual policies to ensure that case underwriting is aligned with the standards
- Providing advice to Underwriters in relation to difficult or high-risk policies
- Monitoring the overall performance of the portfolio.

c) Underwriter – considers the risks inherent in an individual policy and makes a judgement on whether the level of risk of the policy is acceptable, and if so, then sets the actual charged premium based on:

- The book premium set by the portfolio manager
- The individual characteristics of the risk based on analysis of historical information on the policy, an on-site investigation of the risks being insured or surveys performed by Risk Engineers
- The relationship with the intermediary

Overall, the pricing of commercial insurance is informed by the nature of risk at hand although other factors are considered. When the market is soft, the insurer may focus on retaining market share to the detriment of profitability.

1.7 Managing moral hazard

Moral hazard is the idea that a party protected in some way from risk will act differently than if they did not have that protection. Example: people with theft insurance can be less vigilant about where they park.

Insurance companies worry that by offering payouts to protect against losses from accidents, they may actually encourage risk-taking, which results in them paying more in claims.

Insurers fear that a "don't worry, it's insured" attitude leads to policyholders with collision insurance driving recklessly or fire-insured homeowners smoking in bed.

Insurers can manage moral hazard and thereby reducing the risk of reckless behaviour by policyholders through any of the following:

- Differentiated premiums
- Imposing an excess
- Refusing to insure

Coaching Safer Conduct

a) Differentiated premiums

Insurers' most basic tool for creating incentives to reduce risk is the setting of differentiated premiums. Insurers charge lower premiums to careful policyholders, those that can prove they take effective measures to reduce the insured risks and charge higher premiums to policyholders that are less careful. To determine an insured's level of care, insurers have to collect information, which they do in various ways.

b) Imposing excess

Excess is the first amount payable by the insured on each and every claim. If the insured enjoyed only partial insurance coverage, some incentive to take care would be preserved. Efficient insurance contracts require some sharing of the loss between the insurer and the insured and insurers do in fact commonly share losses with insureds in various ways, including through excess. Excess gives the insured an incentive to take care because they will know that in the event of a loss, they will have to make some monetary contribution towards paying for the loss.

c) Refusing to insure

Some activities will not be undertaken without insurance, either because people are highly risk averse or because insurance is mandated by law or by contract. As a result, insurers have de facto control over access to some primary activities and can leverage this power to induce safer behaviour. For example, insurers often will not issue product liability coverage to a manufacturer who does not have a system in place for maintaining quality control with respect to safety issues or does not have a program of safety testing its product. Likewise, liability insurers that cover ski resorts require insureds to have their lifts periodically inspected by the insurer's safety experts as condition of obtaining a policy (which, it- self, is usually a condition for getting a license to operate). A common type of refusal to insure is the cancellation or rescission of, or the refusal to renew, an existing policy.

d) Coaching Safer Conduct

Most insurers offer risk management or loss control services. They provide programs and training to identify and control risks. They audit their clients, manage their prevention efforts, analyse their loss history, identify causes of accidents and how losses occur, and teach them how to avoid premium increases (or how to secure premium reductions). They offer toolkits, information, and guidance that firms can use in making decisions affecting their exposure to loss. They employ experts in all the relevant fields – engineering, medicine, law -and make available to them both the information of the individual insured and the data from the industry to craft individualised risk reduction plans.

1.8 Effect of economic indicators

Insurance, just like any other financial service are affected by economic indicators such as inflation, interest rates, general economic growth as well as government fiscal policy.

Inflation affects short-term insurers for example; unanticipated inflation leads to higher claims costs, thereby eroding profitability. Extended periods of accelerating inflation are especially problematic for casualty lines of business. Insurers can mitigate the impact by adjusting premium rates, but sometimes this is not possible if regulations or the competitive environment do not allow for such adjustments.

Growth in insurers' claims costs, and on the other side, it reduces the values of the insured's assets.

Rising inflation can also have a negative effect on demand and may lead to policyholders cancelling their policies as well as increasing wage costs for insurers. In the case of deflation, or if very low inflation persists, interest rates tend to fall.

Changes in interest rates can affect the assets and the liabilities of an insurance company. Insurance companies have substantial investments in interest-sensitive assets, such as bonds, as well as market interest rate-sensitive products for their customers.

Low or negative economic growth is equally bad for short-term insurance companies. With no growth opportunities, there will be cut-throat competition and the same business will just shift between insurers. Such a business environment generally pushes premiums lower and thereby reducing the bottom line of insurers. Low economic growth may lead to innovation, with insurers coming up with new products to manage the low growth.

CHAPTER 2: The Insurance Process

Learning Outcomes

By the end of this chapter, you will be able to:

- Explain the various steps involved in the underwriting of a commercial policy.
- Describe the structure of an insurance policy
- Illustrate an understanding of the basic pertinent insurance principles.

2.0 Introduction

A process is followed when offering insurance products to a client. In most cases this is done by an insurance broker, agent or consultant. However recently direct insurers have also started offering Commercial insurance and not only focusing on personal lines. The process

and requirements of how this is done is set out in the Financial Advisory and Intermediary Services Act 2002 (act 37 of 2002). It stipulates that for a Representative to give advice he/she must meet the following requirements:

Must be registered as a Representative with the FSCA register and must meet the following fit and proper requirements.

- i. Honesty and Integrity and good standing
- ii. Must meet the competency requirements
- iii. Continuous Professional Development (CPD)
- iv. Operational ability
- v. Financial Soundness.

2.1 The Process of providing insurance

Step 1: Conducting a Needs Analysis

The first in providing insurance is to conduct “A Needs Analysis”, the representative (popularly known as Rep) seeks to uncover the insurable risks in a client’s business by seeking to know and understand the operations, its assets, customers and suppliers. The representative must establish appropriate covers by gaining an understanding of the client’s operations.

Step 2: Identifying suitable Insurance products

The Representative must consider the client’s insurance objectives, financial situation, past claims and current cover in coming up or identifying the client’s insurance needs.

Step 3: Obtain quotations

The next step is to match the client’s insurance needs and the insurance products in the market. Therefore, the “Rep” obtains quotations from various suitable insurance providers who meet the client’s insurance needs.

Step 4: Quote Comparison

After obtaining quotations the “Rep” must analyse the quotes and draw a comparison highlighting major differences of the quotes. The “Rep” is required to highlight the pros and cons of each product to the client and make a recommendation so that the client can make an informed decision. The Financial advisor should look at excesses, differences in covers, exclusions, warranties etc.

If the client had existing insurance cover the Rep must highlight to the client, the differences between their existing and the proposed product.

Step 5: Risk Survey

Sometimes insurers require a risk survey to be conducted before a quote is granted or before binding cover. There are several triggers that will make an insurer request for a survey e.g. high sum insured, occupation etc. Due to the increasing costs of surveys most insurers will not conduct surveys at quote stage as there is no guarantee that they will get the business. As a result, they will quote subject to a risk survey being conducted.

After conducting a risk survey, the surveyor will put together a report and make recommendations to the underwriters. Underwriters takes the report recommendations into consideration when underwriting the policy.

Step 6: Record of Advice

A Financial advisor must draw up and provide the client with a record of advice, this is a legal requirement and good business practice, The Record of advice comes in handy in the event of a complaint. A record of advice must include the following: -

- i. A brief summary of which information and material on which advice was based.
- ii. The products that were considered and why they were considered.
- iii. The financial products which were recommended and the reasons why.
- iv. Any other pertinent information

Step 7: Issuing policies

After the client accepts the insurance policy, the financial advisor sends closing instructions to the insurer. The insurer then issues the policy and sends documentation to the financial advisor. It is the Financial Advisors duty to provide the client with the all the documentation which includes policy schedule, policy wording, disclosure documents and all the relevant contact information.

2.2 The Underwriting Process

The role of an underwriter is to carefully select the applicants whose risk exposure they are willing to insure, charge premiums that accurately reflects the loss exposure as well as monitor the book of business for unusual growth or loss.

When underwriters are presented with a risk, there is a number of things they look at in order to determine whether to accept, decline or accept with conditions. We are now going to look at the tools at the underwriter's disposal which assist in arriving at a decision.

2.2.1 Proposal forms

Underwriters rely on information at their disposal in order to decide. Therefore, insurers require the applicants to fill in proposal forms. Examples of required proposal forms:

- i. Proposal forms

- ii. Thatch questionnaire
- iii. Fidelity guarantee questionnaire
- iv. Products liability questionnaire.

2.2.2 The Underwriting Guideline

This is a set of rules and requirements an insurer provides for its agents and underwriters. It specifies the insurers underwriting policy, the lines of insurance to be covered, declined risks, amount of coverage allowed for each exposure, permitted geographic areas for each line of insurance, any other restrictions deemed pertinent to the underwriting process. As well as pricing information.

2.2.3 Survey report

AS explained earlier a survey report provides pertinent information like housekeeping, firefighting equipment, Maximum probable loss (MPL) which assist the under in deciding.

2.2.4 Reinsurance treaty limits

As highlighted earlier insurer's buy reinsurance, the agreement between the insurer and the reinsurer is called a reinsurance treaty programme. Therefore, all risks accepted must be within the treaty limitations in terms of acceptance and limits. For example, if the treaty programme stipulates that the insurer can write vehicles with a maximum sum insured of R5million, then any amount over and above R5million is not covered. Insurers therefore normally place facultative cover for the amount over the treaty limits.

2.2.5 Risk classification

This is a grouping of risks according to their likely impact or likelihood of occurrence.

Insurers classify risks for each section in order to apply correct pricing as well as limiting exposure. Therefore, when underwriting a risk, an underwriter needs to look at the classifications or categories provided by the insurers. For example, areas that are prone to hailstorms will be classified in the high-risk area and will pay more premium as compared to low risk locations.

2.3 Structure of an Insurance Policy

An insurance policy is a legal contract between two parties:

- i. Insurer who promises to indemnify the insured following an event that gives rise to a claim as stipulated in the policy wording in exchange of a premium.
- ii. The insured who buys the insurance policy.

The insurer draws up the contract and the insured must acquaint themselves with the contents of the contract. Since insurance contracts are complicated Financial Advisors therefore take up the role of interpreting the contract to the client.

There are two parts to an insurance contract namely: -

- i. Policy schedule – identifies parties to the contract, the amount of coverage, details the insured property, deductibles, premium and payment method.
- ii. Policy wording – sets out the terms and conditions and definitions.

The policy wording and the policy schedule should be read in conjunction with each other and not in isolation.

Major elements of insurance contract are as follows: -

- i. Declarations – policy schedule
- ii. Definitions –
- iii. Exclusions and Exceptions
- iv. Conditions.

2.3.1 Exceptions / Exclusions

There are three main reasons why exceptions or exclusions are incorporated into a policy: -

1. The risk is uninsurable.
2. The risk can be insured under a more specific insurance.
3. The risk can be insured by the policy in question at an additional premium by way of endorsement.

2.3.2 Conditions

This section of the policy wording outlines the rules of the insurance policy. That is, it highlights the requirements or the obligation of the insured and insurer, the circumstances under which cover is provided. Breaching a condition can lead to the insurer rejecting a claim.

2.3.3 Warranties

Warranties are conditions which incorporated into an insurance policy that the insured must comply with. If a warranty is not complied with, insurers may void the policy.

2.3.4 Endorsements

Endorsements are changes to an insurance policy. For example, addition of a vehicle to a policy.

2.3.5 Clauses

A clause is a provision in an insurance contract that stipulates the risks that the insurer undertakes to provide cover for. It outlines the major guarantees of the insurer and states what is covered. It is in this clause that the insurer agrees to perform its roles, such as paying losses for the covered risks.

CHAPTER 3: Classes of Commercial Insurance

Learning outcomes

By the end of this chapter, you should be able to:

- Explain the structure of a policy wording and identify the sections of a commercial policy.
- Describe how the Commercial sections are grouped
- Illustrate and differentiate the commercial policy from the specialist insurance products.

3.0 Introduction

A commercial insurance policy that combines several classes into one policy is commonly known as a multi-peril policy. In South Africa it was known as Multi Mark III until 2007. The policy consists of the following classes of insurance:

1. Fire
2. Buildings Combined
3. Office Contents
4. Business interruption
5. Theft
6. Money
7. Glass
8. Fidelity
9. Goods in Transit
10. Business All Risk
11. Accidental Damage
12. Public Liability
13. Employers Liability
14. Stated Benefits
15. Personal Accident
16. Motor
17. Electronic Equipment
18. Umbrella liability
19. Machinery Breakdown

3.1 Classifications of the Commercial policy

3.1.1. Fire classes

The following sections are referred to as Fire classes due to the fact that the cover provided is fire and perils. These sections are also referred to as the material damage sections.

1. Fire
2. Buildings combined
3. Office contents

3.1.2 Accident Classes

The following sections/ classes are referred to as accident classes:

1. Theft
2. Money
3. Glass
4. Fidelity guarantee
5. Goods in transit
6. Business All risk
7. Accidental damage.

3.1.3 Financial losses

The following sections are referred to as the financial losses:

1. Business interruption
2. Accounts receivable – this cover is outdated and very few if any clients take this cover. This section seeks to indemnify the insured for financial loss following destruction of business books of accounts. Therefore, we are not going to discuss this section in this module.

The commercial insurance contract consists of mainly two documents:

1. Policy schedule – which is an outline of cover provided, client details, excesses, conditions, warranties applicable.
2. Policy wording – contains the terms and conditions, definitions of the cover provided in the policy schedule.

These two documents must be read conjunction with each other and together forms the insurance contract.

3.1.4 Specialist insurance classes

In this module we are only going to discuss the Commercial policy in detail. However, it is important to note that in order to cater for all the commercial risks that business is faced with. There is need to have specific insurance products tailored to specific industry.

1. Assets All Risks

This is policy is suitable for corporate clients, multi-national companies. In most cases the policy wording is developed to meet the insured's needs. This is a policy of exclusion that is everything is covered unless specifically excluded.

2. Liability

Specialist liability insurers offers a number of policies as per below:

i. Directors and Officers liability

Popularly known as “D&O” is intended to protect individuals from personal losses if they are sued as a result of serving as a director or an officer of a business or other type of organization.

ii. Cyber Liability

It is an insurance product used to protect businesses and individual users from Internet-based risks.

iii. Carriers Liability

Covers and indemnifies a carrier against their legal liability for actual and physical loss of or damage to goods.

iv. Professional indemnity

Popularly known as “PI Cover” covers legal costs and expenses incurred in the defence, as well as any damages or costs that may be awarded, if one is alleged to have provided inadequate advice, services or designs that causes a client to lose money.

Please note the list above is not exhaustive there are other liability products which are industry specific listed below:

i. Events liability

ii. Employment practices liability

iii. Commercial crime

iv. Medical malpractice

v. Trustees liability

v. Financial institutions liability

vi. Warehouse liability

3. Engineering

Specialist engineering insurers offers tailor made insurance products suitable for a wide range of engineering risks. The most common products are as follows:

i. Contractors all risk

Provides coverage for property damage and third-party injury or damage claims, the two primary types of risks on construction projects.

ii. Plant All risk

Covers loss or damage to construction plant and equipment

Other Engineering products are as follows:

i. Machinery breakdown

ii. Electronic equipment

4. Aviation

Insurance specifically designed to cover aircrafts and the risks involved in aviation.

5. Marine

Covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred.

6. Hospitality

Insurers in this space offers specialist cover for the hospitality industry like restaurants, hotels, BnBs and the like.

7. Agriculture / Farming

Specialist cover for the farming industry offering products for livestock, crops farm equipment and the like.

8. Bonds and Guarantees

Offers a wide range of surety solutions including, construction guarantees, court bonds and the like.

3.2 Structure of the policy wording

3.2.1 General Conditions and Provisions

The Commercial policy has the following:

a) General Conditions

1. Misrepresentation, misdescription and non- disclosure – General Condition 1
2. Other insurance Contribution – General Condition 2
3. Cancellation – General Condition 3
4. Continuation of cover – General Condition 3b
5. Adjustment of premium – General Condition 4
6. Prevention of loss '- General Condition 5
7. Claims – General Condition 6
8. Company's rights after an event – General condition 7

9. Fraud – General condition 8
10. Reinstatement of cover after loss – General condition 9
11. Breach of conditions – General condition 10
12. No rights to other persons – General condition 11
13. Collective insurance – General condition 12.

b) General Provisions

1. Claims preparation costs
2. Payment on account
3. First Amount payable
4. Members
5. Liability under more than one section
6. Meaning of words
7. Premium payment
8. Holding covered
9. Schedule sums insured blank
10. Security firms.

c) General Exceptions

1. War, riot and terrorism
2. Nuclear
3. Computer losses
4. Asbestos exclusion
5. Special extension to General exception 3.

CHAPTER 4: Fire Section

Learning outcomes

By the end of this chapter, you should be able to:1.

- Explain the need for fire insurance
- Describe how property is categorised and insured under the fire section
- Illustrate knowledge and the scope of cover provided under the fire section
- An appreciation of how the fire section is priced.

4.0 Introduction

As discussed earlier, businesses insure assets as a risk mitigation measure. How is the property insured by an insurance company? Well, this is what we are now going to discuss. Firstly, we will look at Fire cover, this section provides cover for assets from losses and damage caused by fire. Under the Fire section property is classified and insured according to the Column reference. The column references are as follows:

4.1 Column Reference on the Fire section

Column No. 1. Buildings constructed of brick, stone, concrete, metal on metal frame and roofed with slate tiles, metal, concrete or asbestos unless otherwise stated in the schedules including landlord's fixtures and fittings therein and thereon, walls (except dam walls), gates, posts and fences.

Column No. 2. The number of months' rent/ rental value

Column No. 3. Plant, machinery, Landlord's fixtures and Fittings for which the insured is responsible and all other contents excluding property more specifically insured.

Column No. 4. Stock and material in trade.

Column No. 5. Miscellaneous as described.

We are now going to look at the column reference in detail: -

4.1.1 Column No.1 Buildings

Buildings are insured on Replacement value, which is the cost of replacing/ rebuilding the property and by adding VAT, demolition cost and professional fees. This section covers buildings of a manufacturing nature or hazardous occupation.

4.1.2 Column No. 2. The number of months' rent/ rental value

Following an insured event, premises can become inhabitable. The insured can be indemnified in the following ways: -

Rent receivable – the actual rent received by the insured if the property is rented out.

Rent payable – the actual rent payable to the owner of the building

Rental value – the actual rental value of the premises if the building is occupied by the owner.

The insured needs to specify the required option depending on the insured's needs. As the section caters for the tenant, landlord or owner as stated above. The number of months rental should be stated as this defines the period of cover.

Cover ends at the expiration of the insurance period (the number of months stated) or when the property becomes tenantable.

NB: - Please note that Business interruption section also covers Rent, the differences between these two covers will be explained later under the Business interruption section.

4.1.3 Column No. 3. Plant, machinery, Landlord's fixtures and Fittings

These are for which the insured is responsible and all other contents excluding property more specifically insured.

This column covers the insured's plant, machinery, fixtures and fittings as the cover implies. The following is also included computer equipment (if not insured under electronic equipment), office contents (if not insured under office contents) and any other items belonging to the insured if not specifically insured anywhere else.

4.1.4 Column No. 4. Stock and material in trade.

As the name implies the cover offered is for Raw materials, finished products, consumables that is everything that has to do with stock or materials in trade.

4.1.5 Column No. 5. Miscellaneous as described.

This covers anything else that is not specifically covered or appropriate to any of the other column references.

4.2 Defined Events / What is covered

A standard Fire policy covers the following perils:

- Fire
- Lightning or thunderbolt
- Explosion
- Power surge – Most insurers offer limited cover mostly up to R50,000

4.3 Exclusions / Exceptions/ What is not covered

- Earthquake
- Damage to property occasioned by it undergoing any heating or drying process

The following extensions can be added to the Fire section at an additional premium: -

- Earthquake
- Malicious damage
- Subsidence and landslip
- Leakage
- Special perils that is wind, water, hail, snow, impact

- Riot and Strike this applies to countries outside South Africa and Namibia as this cover is offered by SASRIA and NASRIA respectively

4.4 Clauses and Extensions

All the clauses listed below are automatically covered by a Fire policy except the following

- i. Rent clause
- ii. Stock declaration
- iii. Disposal of salvage

Therefore, they will appear in the wording as (if stated in the schedule to be included).

4.4.1 Designation of property

This clause is meant to avoid problems of interpretation of terms. Therefore, insurers follow the designation (column reference) of property as set out by the insured in their records.

4.4.2 All other Contents

The cover afforded by this clause is relating to the personal effects of employees which is kept at the insured's premises, say in the workshop, office etc. However, this cover is only available if property is insured under column 3 of the policy and is often limited to R5,000 depending on the insurer.

4.4.3 Limitations clause

This clause should be read in conjunction with the "all the contents clause" and is applicable to column 3 of the policy. This clause covers items like money, documents and business books. Cover is often limited to R5,000 per event.

4.4.4 Alteration and misdescription clause

This clause provides interim cover in the event of alterations and or misdescription of the occupancy, provided that the insured notifies the insurer as soon as reasonably possible and pay additional premium if required.

4.4.5 Architects and professional fees

This cover is normally limited to 15% of the building sum insured. It is meant to cater for plans and specifications of a property when rebuilding the building following loss.

4.4.6 Capital additions clause

Most insurers add this clause in their policies, normally 15% of the sum insured. It is intended to cater for situations where the insured purchases new property, machinery or has made improvements to the existing property and does not notify the insurer.

4.4.7 Cost of demolition and clearing and erection of hoardings

This clause covers the cost of demolition, clearing and erection of hoarding following an insured peril. These costs are included in the sum insured therefore the insured must take this into account when coming up with the sum insured. It should be noted that this clause does not cover pollution or contamination of property that is not insured as well as clearance costs is only applicable to the insured site and not adjacent property.

4.4.8 Fire extinguishing charges

In addition to the sum insured the insurer will pay for the costs relating to fire extinguishing.

4.4.9 Mortgagee clause

This clause protects the mortgagee (the lender normally a bank or financial institution) against any conduct or negligence of the mortgagor (the borrower or insured) which render the insurance contract void or voidable. The mortgagee must immediately inform the insurer as soon as they discover any negligent act and must pay additional premium if applicable.

4.4.10 Municipal plans scrutiny fee clause

This caters for the additional costs incurred in order to meet regulatory requirements, municipality's charges for scrutinising and approving building plans.

4.4.11 Public authorities' requirements clause

This caters for the additional costs incurred in order to meet regulatory requirements pertaining to buildings.

4.4.12 Railway and other subrogation clause

Insurers agreed to waive their subrogation rights relating to Transnet and its successors.

4.4.13 Reinstatement value conditions

This clause sets out the basis of indemnity to be replacement value or reinstatement cost but not superior to the insured property when new.

4.4.14 Alternative replacement value conditions (design capacity)

If insurers are not able to replace or reinstate property in terms of the reinstatement value condition then the insured will be paid the cost of replacing such property with the quality, capacity, function, or output of which is as near as possible but not inferior to that of the original property.

4.4.15 Temporary removal

It is common practice for machinery and other items to be sent away for repairs or cleaning or any other reasons. Insurers offer cover for the property and cover is often limited to 15% of sum insured.

4.4.16 Tenants clause

This clause protects the landlord or property owner interests, in the event of tenants' omission. For example, the tenant changes occupation without notifying the owner.

4.4.17 Stock declaration condition (if stated in the schedule to be included)

Stock held by businesses vary throughout the year depending on several reasons e.g. seasonal items and economic conditions. A problem then arises of deciding on a sum insured. If the sum insured set is too high the insured is paying for sums insured, he may not require. On the other hand, and if the sum insured is too low, the average will be applied. This condition is set to overcome these issues.

The insured must set a sum insured which is the maximum amount of stock held at any given time. Then he must declare the value of stock held during the insurance period. The declarations do not affect the sum insured.

The premium is calculated at 75% of the sum insured at the beginning of the insurance period. After each insurance period, the premium shall be calculated on the average sum insured i.e. total of the value declared divided by the number of declarations. If the resultant premium shall differ from the provisional premium the difference shall be payable by or to the insured, but the amount payable by the company shall not exceed 50 percent of the provisional premium.

4.4.18 Public supply connections

The clause covers accidental damage to water, sewerage, gas, electricity, and telecommunication connections between the property of the insured and the public supply or mains.

4.4.19 Escalator Clause

For the average not to apply the sum insured always needs to be correct. This is difficult to achieve due to the problem of inflation. This clause is meant to cater for this offering a premium benefit to the client. The insured must choose the escalator factor depending on inflation say 10%, therefore the sum insured increases gradually daily from day one until day 365 to the full sum insured. This is sometimes referred to as the day one basis. This clause applies to column 1 (Buildings) and 3 (Plant and machinery) only.

4.4.20 Disposal of salvage (if stated in the schedule to be included)

This clause makes it possible for the insured to buy back salvage / damaged goods from the insurer. Problems may arise in disposing trademarked goods, if not done properly this may damage the insured's good name.

4.5 Underwriting considerations

- i. Location – street address including postal code- proximity to the fire brigade, adjacent building's occupation, surrounding property.
- ii. Construction – materials used in the construction of property determine the properties' susceptibility to the risk of fire. Therefore, non-standard construction e.g. thatch attracts a higher premium than massive construction (brick under tile).
- iii. Occupation - refers to the business being conducted in the building in order to determine the combustibility of the contents e.g. hazardous processes attract a higher premium than an office premises.
- iv. Fire Fighting equipment presence and effectiveness of fire extinguishing appliances.
- v. M.P.L (Maximum Possible Loss) – this is the largest percentage of the insured property that can be destroyed in the in a single event.
- vi. Accumulation risk – this is where the same event for example Fire or explosion can damage more than one item and whether other policy sections of insurance are also affected. For example, Fire and Business interruption section.
- vii. Housekeeping.

Insurers have survey trigger criteria, which looks at the sum insured, occupation etc to determine whether to conduct a survey or not.

4.5.1 Rating

Rate is a unit of cost that is multiplied by an exposure base to determine an insurance premium. It is in percentage format and is multiplied by the sum insured to get the insurance premium.

Risks which are classified as low risks attracts lower rates whereas risks classified as high risks attracts higher rates which ranges from 0.05% and can go up to 0.5% for high risk risks. This information is found in the underwriting guideline.

4.5.2 First Amount payable

The underwriter will determine the excess applicable for this section based on the risk, sum insured and loss history.

4.6 Clauses and Extensions

- Inflation Clause
- Escalation clause
- Subsidence and landslip
- Leakage extension
- Debris Removal
- Stock declaration condition.

CHAPTER 5: Buildings Combined Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the differences in covers offered on the Fire section and the Buildings Combined section.
- Describe the different sub sections of the Buildings Combined section.
- Illustrate an understanding of the scope of cover offered on the Buildings Combined section.

5.0 Introduction

This section is used to cover non-hazardous premises like offices, schools and hospitals. This is in contrast to the fire section where cover is offered for manufacturing type and hazardous occupation.

Cover is divided into four sections as follows:

Sub section A – Property

Sub section B – Public Supply connections

Sub section C – Rent

Subsection D – Liability

5.1 Sub section A – Property

This section covers the actual building including outbuildings, landlord's fixtures and fittings and walls except dam walls, driveways, parking areas, gates, and anything that is classified as part of the building; however, no contents cover is provided.

5.1.1 Perils covered

The perils covered on this section are the same as the Fire section except Buildings Combined section covers Theft (or attempted threat) accompanied by forcible and violent entry or exit from the building. Buildings combined section also covers accidental damage to sanitary ware.

5.1.2 Specific condition – Average

This is the same average clause as per the Fire section; however, average does not apply to accidental damage to sanitary ware.

5.2 Sub section B – Public supply Connections

Accidental damage to water, gas, electricity and telephone connections. The cover is for public supply connections stretch from where the public supply leaves the mains into the building.

5.3 Sub section C- Rent

The cover offered on this section is the same as the cover offered under the Fire Section. However, the sum insured must be stated in the schedule, a maximum of 25% of the building sum insured is payable. The cover stops once the building has been repaired/

reinstated. We will compare this cover with the one offered under Business interruption section.

5.4 Sub section D – Liability

This cover is known as Property Owners liability, cover is normally limited to a R1,000,000 however it can be increased at an additional premium. Cover is limited to liabilities arising out of the insured's ownership of the insured property.

5.5 Clauses and Extensions

Prevention of access extension to sub section C (If stated in the schedule to be included) - The operation of an insured might render the premises inaccessible say a flood might wash away access roads.

5.6 Security firms (applicable to sub section D – Liability)

This brings contracted security company employees into the liability cover.

All the other clauses and extensions were already discussed under Fire section and are applicable to the Buildings Combined section.

- Architects and other professional fee clause
- Capital additions clause
- Cost of demolition and clearing and erection of hoardings clause
- Fire extinguishing charges clause
- Mortgagee clause
- Municipal plans scrutiny fee clause
- Public requirements clause
- Railway and other subrogation clauses
- Reinstatement value conditions
- Temporary removal clause
- Tenants clause
- Escalator clause extension (if stated in the schedule to be included)
- Malicious damage
- Riot and strike extensions (if stated in the schedule to be included).

The following exclusions are applicable to the Liability section, the exclusions are the same as the Liability section which will be discussed later in this book.

5.7 Specific Exceptions (applicable to sub – section D)

The company will not indemnify the insured under this sub section in respect of: -

1. Injury or damage sustained by:

- a. Any member of the same household as the insured
 - b. Any person employed by the insured under a contract of service or apprenticeship and arising directly from and in the course of such employment by the Insured (employee must claim under COID) COID stands for Compensation of Occupational Injuries and Diseases Act.
 - c. Any other person resulting from the ownership of or use by or on behalf of the insured of mechanically propelled vehicles (except pedal cycles and lawnmowers)
2. Damage to property
 - (a) i. belonging to the insured
 - ii. in the custody or control of the insured or any employee of the insured
 - (b) Caused by vibration or by the removal or weakening of or interference with support to any land, building or other structure.
 3. Liability assumed by agreement unless liability would have attached to the insured notwithstanding such agreement.
 4. a. Liability in respect of injury, damage or loss of use of property directly or indirectly caused by seepage, pollution or contamination provided always that this exception shall not apply where such seepage, pollution or contamination is caused by a sudden, unintended and unforeseen occurrence.
 - b. the cost of removing, nullifying or cleaning up seeping, pollution or contaminating substances unless the seepage, pollution or contamination is caused by a sudden, unintended and unforeseen occurrence.

This exception shall not extend the policy to cover any liability which would not have been insured under this policy in the absence of this exception.

5. Fines, penalties, punitive, exemplary or vindictive damages
6. a. damages in respect of judgements delivered or obtained in the first instance otherwise than by a court of competent jurisdiction within the Republic of South Africa, Namibia, Botswana, Lesotho and Swaziland
 - b. costs and expenses of litigation recovered by any claimant from the Insured which are not incurred in and recoverable in the area described in 6 (a) above.

5.8 Memoranda to Sub – section D

1. Where more than one insured is named in the schedule, the Company will indemnify each insured separately and not jointly and any liability arising between such insureds shall be treated as though separate policies had been issued to each, provided that the aggregate liability of the Company shall not exceed the limit of indemnity stated in the schedule.

2. Provided that the aggregate liability of the Company is not increased beyond the limit of indemnity stated, the Company will also indemnify as though a separate policy had been issued to each.
 - a. In the event of death of the Insured, any personal representative of the Insured in respect of liability incurred by the Insured.
 - b. Any partner or director or member or employee of the Insured (if the insured so request) against any claim for which the Insured is entitled to indemnify under this insurance.
3. In respect of this sub section only, General exception 1 is deleted and replaced by the following:

This subsection does not cover injury, damage or liability directly or indirectly caused by, related to or in consequence of war, invasion, act of foreign enemy, hostilities (whether war be declared or not), civil war, mutiny, insurrection, rebellion, revolution, military or usurped power.
4. If, at the time of any event giving rise to a claim under this sub section, indemnity is also provided under any other insurance, this sub section shall not be drawn into contribution with such other insurance except in respect of any excess over and above the amount payable by such other insurance.

We will discuss more when we get to the liability section.

5.9 Underwriting Considerations

1. Construction – As discussed under the Fire section, non-standard construction and flammable construction carry a loading. 2. Risk location – location gives insight on history lightning, hailstorms, proximity to firefighting services, rivers streams and flow of water.

5.9.1 Rating

Rates applied to Buildings Combined section are higher than that on the Fire section, as Buildings Combined section offers more cover.

CHAPTER 6: Office Contents Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the concept and need for Office contents insurance
- Describe and understand the purpose of the sub sections under the Office contents section
- Illustrate a sound knowledge of the scope of cover provided as well as pricing.

6.0 Introduction

This section is designed exclusively for offices and not offices situated in shops, factories etc. However, if the offices are completely separated from the workshop or factory then it

may qualify. Contents of consulting rooms and professional practices maybe insured under this section as well.

Office Contents Section consists of the following sub sections:

Sub section A – Contents

Sub section B – Rent

Sub section C – Documents

Sub section D – Legal liability – Documents

Sub section E – Increase in Cost of Working.

6.1 Defined events (what is covered)

Loss of or damage to the contents of the office (other than documents and electronic data processing equipment) Documents are covered under sub section C and Electronic equipment is best covered on the Business All risk section or Electronic Equipment section. (We will discuss these sections later in the module.)

Included is landlord's fixtures and fittings, property of the insured or for which he is responsible, and the property owned by any partner or director or employee of the insured cover is normally limited to R2,500 per person.

6.2 Perils covered

The same perils covered under the Fire section are covered under this section as well. The difference is that this section covers accidental damage/ breakage of mirror glass, plate glass tops of furniture or fixed glass forming any part of any article.

This section automatically includes malicious damage.

This section is subject to the Average condition therefore the sum insured must be adequate.

6.2.1 Underwriting considerations

1. Construction – as discussed earlier non – standard construction attracts higher premiums as compared to standard construction.
2. Security – Insurers normally require a linked alarm which must be activated when the offices are unoccupied depending on sum insured
3. Location – insurers consider proximity to fire brigade, rivers, open spaces, informal settlements.

4. Claims history.5. Theft is an expensive cover due to the risks involved therefore insurers normally requires the theft extension to be priced separately.

6.3 Exclusions

- a. Property outside the Republic of South Africa, Namibia, Botswana, Lesotho, Swaziland, Zimbabwe and Malawi.
- b. Designs, patterns or moulds (except to the extent that the said articles are insured in terms of sub section A), stock in trade, samples, motor vehicles and accessories therefore, money, securities, stamps, jewellery or precious stones.
- c. The insured is responsible for the first 10 per cent of the indemnifiable amount or R1,000 whichever is the greater, if the loss damage is due to power surge or lightning.

6.4 Sub section B – Rent

Premises can become uninhabitable due to the damage by an insured peril. The insured will be indemnified for additional rent or up to 25% of the sum insured (sub section A) whichever is lower. This amount is payable in addition to the sum insured of the Contents. This is a free extension; no premium is required.

6.5 Sub Section C – Documents

This section covers loss or damage to documents normally kept at the office premises. This section is All risks cover, which essentially means that all losses unless specifically excluded are covered. The burden of proof lies with the insurer. Some insurers include free automatic cover up to R50,000, if the insured requires additional cover, then additional premium is applicable for this section.

6.5.1 Documents covered

Films, tapes, addressograph plates, books, records, maps, plans, drawings, abstracts, deeds, wills, mortgages, agreements, manuscripts, letters, certificates, documents, and similar written, printed or otherwise inscribed papers and documents used by the insured in the business and owned by him or for which he is responsible.

Liability is limited to the costs incurred by the insured to replace or restore such documents.

6.5.2 Documents not covered

Money, current postage or revenue stamps, cancelled and uncanceled coupons, securities, bearer bonds, cheques, drafts and any written evidence of indebtedness or obligation and all

property carried or held as samples or for sale or delivery after sale and computer data carrying media unless otherwise stated in the schedule.

6.6 Exceptions

This section does not cover:

- a. Loss or damage caused by:
 - (i) Electric, electronic or magnetic injury, disturbance or erasure of electronic or magnetic recordings except by lightning in which case the lightning loss or indemnifiable amount will be reduced by 10% of such amount of R1,000 whichever is the greater
 - (ii) The dishonesty of any principal, partner or director of the insured (limitation is limited to principals therefore fidelity by employees is covered)
 - (iii) Vermin or inherent defect or by processing, copying or other work upon the documents.
- b. Gradual deterioration or wear and tear
- c. Costs involved in re-shooting films, videos and re- recording audio tapes

6.7 Sub section D – Legal liability Documents

This section covers legal liability as a direct consequence of loss of or damage to documents as defined in sub section C and for which a claim has been acknowledged. Most insurers automatically include free cover of R50,000, increased limits available at an additional cost.

6.8 Sub section E – Increase in Cost of Working

This section covers any additional expenditure by the insured for the purpose of maintaining the normal operation of the business after a loss as a result of a loss admitted by the insured in terms of Sub section A or Sub section C. A maximum sum insured of 25% of the Office Contents is automatically included at no additional premium.

6.9 Clauses and extensions

6.9.1 Locks and keys

In addition to the limit of liability, this extension covers the cost of replacing locks and keys following disappearance or theft.

6.9.2 New and additional premises

If the insured occupies offices or consulting rooms other than those stated in the schedule within the territorial limits, these offices will be covered on condition that the insured notifies the insurer within reasonable period after occupation and pay the additional premium.

6.9.3 Temporary repairs and measures after loss

This caters for emergency repairs to minimise the damage and get the business up and running. The following clauses are also included but have already been discussed:

- Alterations and misdescriptions
- Capital additions
- Fire Extinguishing charges
- Removal of debris
- Temporary removal
- Tenants
- Replacement value condition
- Riot and Strike extension (if stated in the schedule to be included).

6.10 Theft by forcible entry (if stated in schedule to be included)

Theft is not part of the insured perils; however, the policy can be extended to include theft cover. Theft accompanied by forcible and violent entry into or exit from the offices or any attempt thereat or as a result of theft following violence thereat.

Theft cover is offered on a first loss basis therefore average is not applicable.

Theft cover is normally given at a sum insured of 25% of Contents (Sub Section A) at an additional premium.

CHAPTER 7: Business Interruption Section

Learning outcomes

By the end of this chapter, you should be able to:

- Explain the need and different circumstances in which business interruption insurance is required.
- Describe the different options of cover offered by the business interruption section.
- Illustrate an understanding of the concept and scope of cover of cover provided.

7.0 Introduction

This section is also known as loss of profits or consequential loss insurance. This cover relates to financial loss incurred following an insured peril under the following sections: Fire,

buildings Combined, Office Contents, or any other material damage policy. In other words, Business interruption cover follows material damage section that is if an insurer rejects a material damage claim the Business interruption claim will also be rejected.

For example, if a factory is damaged by fire or storm, apart from the physical damage the business may suffer loss revenue due to reduced production output or no production. The business may pay extra costs in order to continue production.

The purpose of this section is to:

- a. Pay net profit which would otherwise have been earned (Gross profit).
- b. Reimburse those charges which continue regardless of the reduction in turnover
- c. Meet such additional costs as are incurred to enable the business to recover more quickly or reduce the loss.

Business Interruption section consists of the following items: -

Item 1 – Gross Profit

Item 2 - Gross Rentals

Item 3 – Revenue

Item 4 – Additional increase in cost of working

Item 5 – Wages (Number of weeks basis)

Item 6 – Fines and penalties

We will now discuss the above in detail.

7.1 Item 1 – Gross profit

The turnover of a business is used to pay for the running costs and profit for a business. The costs can be divided as follows:

- variable costs: those that reduce in direct proportion to the reduction in turnover, such as raw materials
- fixed costs: those that must still be paid even if the business is not operating, such as rent.

Not all costs result in a loss to the insured, as variable cost reduce in proportion to reduction in turnover. If the turnover reduces, the insured will not suffer a loss under this heading. A business interruption policy, therefore, only needs to cover the insured's net profit and fixed expenses (which are often called 'standing charges'). The policy only needs to cover net profit.

7.1.2 Basis of cover

Addition Basis = Net Profit + Standing Charges.

Rather than the insured having to list all the standing charges (and possibly omitting to include something), insurers instead arrange cover on a difference basis. The gross profit is calculated by deducting variable expenses (which are also known as uninsured working expenses) from the turnover.

Difference Basis = Turnover + Closing Stock less Opening Stock + Purchases + Specified Working Expenses.

7.2 Item 2 Gross Rentals

This section is in respect of money paid to the insured by the tenants for the rental of premises. The insured chooses the number of months for which he wants to insure the rental.

Cover is in respect of:

1. Loss of gross rentals
2. Increase in cost of working - the additional expenditure necessarily and reasonably incurred for the sole purpose of avoiding or diminishing the loss of gross rentals during the indemnity period.

7.3 Item 3 Revenue

Revenue refers to money paid or payable to the insured for services rendered, this cover is mainly for professional people like doctors, architects who do not work on gross profit basis.

7.4 Item 4 Additional Increased in Cost of working

Additional expenditure not recoverable under the other items incurred with the consent of the insurer during the indemnity period in consequence of the damage for the purpose of maintaining the normal operation of the business.

7.5 Item 5 Wages

The policy makes provision for wages payable to employees whose service cannot be used by the insured as a result of the damage and a share of the wages of employees whose services cannot be fully utilised as a result of the damage. The wages are insured on a number of weeks basis.

7.6 Item 6 Fines and Penalties

Damage may result in the non-completion or late completion of orders and in terms of the contract the insured may be held legally liable for paying fines and penalties.

7.7 Extensions and Clauses

7.7.1 Accountants Clause

Any particulars or details contained in the insured's books of account or other business books or documents which may be required by the company under this section for the purpose of investigating or verifying any claim hereunder, may be produced and certified by the insured's auditors or professional accountants, and their certificate shall be prima facie evidence of the particulars and details to which it relates.

7.7.2 Accumulated stock clause

In adjusting any loss, account shall be taken, and an equitable allowance made if any shortage in turnover occurs, or revenue due to the damage is postponed, by reason of the turnover or revenue being temporarily maintained from accumulated stocks.

7.7.3 Departmental Clause

Some businesses have separate departments/ branches/divisions, although the turnover and profit of each department can be determined only one global amount is reflected in the policy. If a claim occurs the gross profit of each department/ division must be analysed in order to determine whether the sum insured is adequate. If not, average will apply.

7.7.4 Deposit premium clause

Sometimes it is difficult to calculate the correct Gross profit, Gross rental and revenue sum insured. Therefore, a provisional premium is calculated on 75% of the sum insured. As a result, the premium is subject to adjustment on expiry of each period of insurance.

7.7.5 Output (alternative basis) clause

At the option of the insured, the term "output" may be substituted for the term "turnover" and, for the purposes of this section, output shall mean the sale or transfer value, as shown in the insured's books, of goods manufactured or processed by the insured at the premises provided that only the meaning of output or the meaning of turnover shall be operative in connection with any one event resulting in interruption.

If, during the indemnity period, goods shall be manufactured or processed other than at the premises for the benefit of the business, either by the insured or by others on behalf of the insured, the sale or transfer of such goods shall be brought into account in arriving at the output during the indemnity period.

7.7.6 Salvage sale clause

If the insured shall hold a salvage sale during the indemnity period clause 1 of item 1 (gross profit) shall, for the purposes of such claim, read as follows:

1. in respect of reduction in turnover the sum produced by applying the rate of gross profit to the amount by which the turnover during the indemnity period (less the turnover for the period of the salvage sale) shall, in consequence of the Damage, fall short of the standard turnover, from which sum shall be deducted the gross profit actually earned during the period of the salvage sale.

7.8 Extensions to other premises

Loss as insured by this section, resulting from interruption of or interference with the business in consequence of damage (as defined herein), shall be deemed to be loss resulting from damage to property used by the insured at the premises.

7.8.1 Specified suppliers / Sub contractors (if stated in the schedule to be included)

The premises of the suppliers and sub-contractors specified in the schedule, subject to stated limits.

7.8.2 Unspecified suppliers (if stated in the schedule to be included)

The premises of any other of the insured's suppliers, manufacturers or processors of components, goods or materials, but excluding the premises of any public supply undertaking from which the insured obtains electricity, gas or water, subject to the limit stated in the schedule.

7.8.3 Storage, transit and vehicle

Property of the insured whilst stored or whilst in transit by air, road, rail or inland waterway or being motor vehicles of the insured elsewhere than at premises occupied by the insured.

7.8.4 Contract sites

Any situation not occupied by the insured where the insured is carrying out a contract.

7.8.5 Prevention of Access

Property within a 10 km radius of the insured's premises, destruction of or damage to which shall prevent or hinder the use of the premises or access thereto, whether the premises or property of the insured therein shall be damaged or not.

7.8.6 Prevention of access - extended cover (if stated in the schedule to be included)

Property within a 10 km radius of the premises, destruction of or damage to which shall prevent or hinder the use of the premises or access thereto, whether the premises or property of the insured therein shall be damaged or not.

7.8.7 Additional premises

In the event of the insured occupying or having property at any newly added premises for the purpose of the business during the currency of this section, such newly added premises shall be deemed to be included in those specified here subject to notification to the company as soon as reasonably practicable and to adjustment of the premium if necessary.

7.8.8 Customers

The premises of the customers specified in the schedule subject to stated limits.

7.8.9 Public Utilities – insured perils only

Damage at the property of an authority empowered by law to supply water, gas or electricity for consumption by the public and which results in an interruption of water, gas or electricity to the premises of the insured.

7.8.10 Public telecommunications – insured perils only

Damage to property at the premises any public authority which is empowered by law to supply a telecommunications facility to the insured and the transmission facilities network of the public authority mentioned in the policy.

7.8.11 Public telecommunications – extended cover (if stated in the schedule to be included)

Interruption or interference with the business of the insured consequential to the failure of the public telecommunication facilities to the premises of the insured. Provided this extension does not cover loss resulting from damage directly or indirectly caused by:

1. Drought
2. A fault on any part of the premises belonging to the insured.
3. A decision by any authority to legally withhold the telecommunication facility from the insured unless such decision is directly attributable to Damage to property of such authority.
4. Any event described in General exception 1 and 2 but cover provided under the Malicious damage extension in the underlying policy is not excluded.

7.8.12 Public utilities – extended cover (if stated in the schedule to be included)

Loss to insured resulting from interruption of or interference with the business in consequence of failure of public supply of water, gas, electricity to the premises of the

insured. This extension does not cover loss resulting from damage directly or indirectly caused by:

1. Drought
2. Pollution of water
3. Shortage of fuel or water
4. A fault on any part of the installation belonging to the premises.
5. The exercise of an authority empowered by law to supply water, gas or electricity of its power to withhold or restrict supply unless such withholding or restriction is directly attributable to damage to property of such authority.
6. Any event described in General exception 1 and 2, but cover provided by the malicious damage extension in the underlying material damage section of this policy is not excluded.

7.8.13 Geographical limits

The extensions to other premises and the extended cover for public telecommunications and public utilities are confined to the Republic of South Africa, Namibia, Botswana, Lesotho, Swaziland, Zimbabwe and Malawi. Certain items of the extensions to other premises are confined to the Republic of South Africa and Namibia.

7.8.14 Accidental Damage (if stated in the schedule to be included)

The policy is extended to provide cover for loss following interruption or interference with the business of the insured. The loss must be at the insured premises for which payment has been made under defined event in the accidental damage section.

7.8.15 Rating factors

The premium is calculated by applying a rate to the Gross profit sums insured. The rate applied will be based on the property damage rate and so will reflect a variety of factors which will be looked at below. For example, the rate can be 70% of the Fire rate.

7.8.16 Underwriting Considerations

1. Address and location information of the business to be insured (e.g. companies in the neighbourhood with a possibly higher risk potential, earthquake or flood will attract a higher rate.
2. Number of permanent employees vs. percentage of employees with contracts for work and services.

3. Seasonal fluctuations in the individual product and business segments.
4. Indication of the terms for delivery/replacement and installation times required for important machines and plants. The longer it takes to replace the machines the higher the rate.
5. Required reconstruction times for destroyed/damaged buildings including the procurement of the necessary permits as well as any expected reconstruction restrictions due to official requirements.
6. Time required to regain important operating licences and licences to resume production for operations that require permission from authorities.
7. Susceptibility of the production plant as well as the goods produced/stored (e.g. to fire, heat, smoke, humidity).
8. Estimated time needed for “technical recovery” and full “commercial recovery” of operations
9. Business Continuity measures in place.
10. Business areas, operations and facilities on the premises (main, ancillary, auxiliary), and their respective interdependencies.

CHAPTER 8: Theft Section

Learning Outcomes

By the end of the chapter, you should be able to:

- Explain the need for theft cover as well as the basis of cover
- Describe the circumstances and conditions where cover is offered.
- Illustrate an understanding of the scope of cover offered.
- Display a knowledge of underwriting factors considered when pricing the theft section.

8.0 Introduction

This section covers all the contents, property of the insured or for which he is responsible in any insured building. Property not contained in a building is not covered.

Theft must be accompanied by forcible violent entry into or exit from a building or any attempt thereat, following violence or threat of violence.

Cover is offered on First loss basis which is the maximum value of goods that may be stolen in any one single event; therefore, the principle of average does not apply.

8.1 Extensions

1 (a) (i) Loss or damage caused by a thief or thieves being concealed upon the insured premises before close of business.

(ii) Entry to and / or exit from the premises being affected by use of a skeleton key or similar tool excluding a duplicate key.

(iii) Additional premises – while in a building at any additional premises provided that the insurer is advised within 30days of such additional premises, additional premium if any; is paid and the insurers liability is limited to 50% of the highest amount stated in the schedule in respect of anyone premises.

In addition to the limit of indemnity stated in the schedule, this section includes:

2. (i) damage or loss to the buildings (including landlord's fixtures and fittings) which house the insured contents, in the course of any theft or attempted theft.

(ii) Reasonable costs and expenses to effect temporary repairs including costs to secure the building.

3. The cost of replacing locks and keys following the disappearance of any key or the insured having reason to believe that any unauthorised person may be in possession of a duplicate of such key.

Liability is limited to R2,000 any one event and R200 excess. The limit of liability can be increased at an additional premium.

4. The term "All Contents" shall also include: personal effects, tools and bicycles belonging to the insured, principal, partner, director or employee of the insured. Cover is limited to R2,500 per person if not otherwise insured. This limit cannot be increased.

Please note that the malicious damage extension under Fire and the Buildings combined section does not cover theft of buildings, theft of fixtures and fittings nor damage caused by thieves breaking into or out of the building. The cover is offered under this section.

8.2 Limitations

Should the business books and computer system records be stolen, the insurers liability is limited to the value of materials and sum expended on labour to update the books of the business.

8.3 Specific Exceptions

The insurer shall not be liable for the following:

1. Loss or damage which can be insured under a fire policy except in the case of explosion caused in an attempt to effect entry.
2. Excludes anything insurable under a glass insurance policy.
3. Excludes anything more specifically insured or, unless specified in the schedule and money.
4. Excludes theft by employees, partner, principal, director or any member of the insured's household.

8.4 Specific Conditions

1. This section is voidable if the nature of the risk is materially altered without prior written consent of the insurer i.e. duty of disclosure.
2. Alarm warranty – if the policy is endorsed that a burglar alarm shall be installed, this condition becomes a warranty and is a condition precedent to liability.

8.5 Rating factors

Theft cover is a very expensive due to the risk involved. Therefore, it is important for the underwriter to get as much information as they can in order to assess the risk and correctly price the risk.

1. Business description – some products are more attractive to theft than others, like high tech computer equipment or cell phones.
2. Construction – Property housed in non-standard construction like containers are more susceptible to theft.
3. Security measures at the premises.
4. Location
5. Claims history.

CHAPTER 9: Money Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain what is referred to as “money”
- Describe the need and circumstances where money cover is required
- Illustrate an understanding of scope of cover offered
- Application of underwriting factors consideration when underwriting this section.

9.0 Introduction

The main aim of this section is to insure the money of a business against theft, cover is on all risk basis with certain exceptions.

Due to advancement in technology most people do not carry cash around anymore, the most common methods of payment are electronic funds transfers or credit/ debit cards payment. However, some organisations like retailers, restaurants due to the nature of their business still have high volumes of cash and need money cover.

The policy covers loss or damage to money in the Republic of South Africa, Namibia, Lesotho, Botswana, Swaziland, Zimbabwe and Malawi.

The insured can choose the sum insured and cover is not limited to the premises as stated in the schedule as well as away from the premises, in transit by road, rail, air and mail.

Money is defined as:

- (i) Bank notes
- (ii) Currency notes
- (iii) Cheques
- (iv) Postal orders
- (v) Money orders
- (vi) Credit card vouchers
- (vii) Any other instruments of a negotiable nature.

Receptacle shall mean any safe, strong room, strongbox, till, cash register, cash box or other receptacle for money or any franking machine.

Clothing shall mean clothing and personal effects not otherwise insured belonging to the insured or to any principal, partner, director or employee of the insured.

9.1 Extensions

In addition to loss of or damage to money the policy also covers the following: -

1. Receptacles and clothing cover are limited to R3,000 for clothing and R2,000 for receptacles.
2. Locks and keys – cover is in respect of locks and keys of any receptacle after the disappearance of any key of such a receptacle. Cover is limited to R2,000 with a R200 excess.
3. Riot and Strike (if stated in the schedule to be included) as explained before the intention is to provide the equivalent of SASRIA cover outside the Republic of South Africa and Namibia.
4. Skeleton keys – covers loss of or damage to the insured property caused or accompanied by entry to receptacles by use of a skeleton key or other similar device

excluding a duplicate key. The insured shall establish to the satisfaction of the company that a skeleton key or device was used.

5. Personal accident cover for the insured, or any principal, partner, director or employee of the insured. Cover is for death or bodily injury arising from theft of money or attempt thereat.

Extensions to the personal accident (assault) extension

1. Bodily injury
2. Death

9.2 Exceptions

The insurer shall not be liable for loss or damage to money:

1. Arising from dishonesty of any principal, partner, director, person or persons in the employ of the insured not discovered within 14 working days of the occurrence thereof.

If the theft is discovered within 14 days of its occurrence the policy will offer cover subject to the following first amount payable

- (a) 2% of the applicable limit under defined event
- (b) A further amount of 10% of the net amount payable after deduction of the 2% in (a) above.

Note – if there is a Fidelity section or policy in force no payment may be made under this section in respect of fidelity losses. If a claim is acknowledged under the Fidelity Section but repudiated because the amount claimed for is less than the first amount payable, the claim cannot be settled under the Money section.

2. Shortages due to error or omission, it refers to incorrect entries in the accounting books of the business.
3. Loss of money as a result of the use of the keys to any safe or strong room is not covered unless the keys:
 - a. Have been obtained by violence or threat of violence
 - b. Are used by the keyholder and the insured and the insured can prove to the satisfaction of the insurer that the keyholder used the keys to open the receptacle.
4. Loss of money from an unlocked safe or strong room is not covered whilst the portion of the premises containing such safe or strong room is unattended. Unless the insured can prove that the keyholder to the safe or strong room deliberately left it

unlocked with the intention of allowing the money stolen. Emphasis is on the care needed to be taken by the insured.

5. Loss of money not contained in a locked safe or strong room whilst the portion of the premises containing such money is unattended. Unless the insured can prove that the person responsible for the money deliberately left it outside the safe or strong room with the intention of allowing it to be stolen.

NB: - This is the same with exception 4 as actions of employees fall under the fidelity section.

6. In any vehicle being used by the insured, unless a principal, partner, director or employee of the insured is in such a vehicle, if not in such vehicle is within 5 meters of it in a position from which the vehicle is clearly visible. This exception shall not apply following an accident of such vehicle rendering the said person incapacitated. This is the unattended vehicle exclusion.

Exceptions (3), (4), (5) and 6 are not reduced by any first amount payable.

9.3 Burglar Resisting safes

Safes are granted a South African Bureau of Standards category in accordance with their resistance to various forms of attack and have the South African Bureau of Standards mark awarded to them. The manufacturers become South African Bureau mark holders.

The recommended basic limits for overnight storage of cash and valuables are as follows: -

No SABS grading - R 5 000

SABS category 1 grading - R 10 000

SABS category 2 grading - R 20 000

SABS category 2HD grading - R 40 000

SABS category 2ADM grading - R100 000

SABS category 2ADM D3 grading - R125 000

SABS category 3 grading - R175 000

SABS category 4 grading - R350 000

SABS category 5ADC grading - R500 000

If money is not kept in a locked safe, strong box or strong room, it shall be limited as highlighted in the policy wording.

If money is kept in a locked safe, strong box or strong room, in the building on the premises, as stated in the policy schedule, after business hours during which the insured does business cover will be limited as per the policy wording/ schedule.

9.4 Money transit

It is not a secret that money in transit is high risk, there are lots of cash heists that are reported occasionally. Since money transit is a high-risk, cover is often limited, or it may be made a requirement that money should be deposited by a security firm.

9.5 Cheques

Cheques used to be the one of the most common method of payment, however not anymore as there are other easier and efficient electronic payment methods.

9.6 Underwriting factors

Underwriters look at the following factors when considering whether to accept a risk or not, if accepted, at what rate/ premium as well as the terms and conditions.

1. Situation and physical security at risk address.
2. The area in which the business operates and the area in between enroute to the bank should also be considered.
3. Specifications of safe in which money will be kept.
4. Details of amount of money kept on premises and processes involved e.g. employees paid in cash.
5. Whether any money is in the hands of collectors, and if so, the precautions taken and limits that apply.
6. How often is money banked?
7. Who handles money in transit?

CHAPTER 10: Glass Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the need for glass cover as a separate section
- Describe what is referred or considered as “glass”
- Illustrate an understanding of the cover offered.

10.0 Introduction

Buildings insured under Buildings Combined and Fire section already enjoy glass cover. However, separate Glass cover is required as follows:

- a. Building insurance has limited cover.
- b. Glass section covers accidental damage
- c. Tenants are sometimes responsible for the glass in terms of the lease agreement.

10.1 Defined events

Loss of or damage to internal and external glass (including mirrors), signwriting and treatment thereon at the insured premises as stated in the schedule, the property of the insured or for which they are responsible.

10.2 Specific condition

Average

This concept was addressed under Fire section, if the value of glass at the commencement of any damage to such glass is collectively greater than the sum insured, then the principle of average shall apply.

10.3 Definition of glass

Unless specifically agreed, all glass (other than mirrors) insured by this section is presumed to be plain plate/float glass not exceeding 6 millimetres in thickness (whether coated with a film or not) or 6.5mm plastic laminated safety glass.

Cover is limited to the normal shop plate glass window, armoured and bulletproof glass are not covered, if cover is required the policy must be amended by an endorsement.

10.4 Extensions

10.4.1 Special replacement (if stated in schedule to be included)

The National Building Regulations require that glass in an area that is used by the public must be of shatterproof quality. This glass is more expensive than plain plate glass therefore the sum insured must be adequate as the principle of average shall apply.

For those buildings which were erected many years before this regulation the glass in these buildings may be ordinary window glass. In such a scenario the insured is placed in a better

position. However, what about the principle of re-instatement? This extension will not apply if the insured requests that the glass be insured in this way.

10.4.2 Riot and strike (if stated in the schedule to be included)

This extension provides SASRIA cover outside the borders of South Africa and Namibia.

10.5 Specific Exceptions

1. Loss or damage which is insured or would have been insured by any fire insurance unless the insured is a tenant. This means that if a Fire policy would cover the loss that loss would fall under the Fire policy, which leaves this section only providing accidental breakage cover as this is not covered by a fire policy.
2. Glass forming part of stock in trade.
3. Glass which at inception of the policy is cracked or broken unless cover has been agreed by the insurer.
4. Defacement or damage other than fracture through the entire thickness of the glass or any lamination thereof.

10.6 Underwriting factors

Underwriters consider the following factors when underwriting the glass section:

1. Physical situation and details of protection and security arrangement.
2. Location e.g. areas with high pedestrian traffic are a greater risk, shops on street fronts are poor risks from a malicious damage and smash-and-grab point of view as well as impact by vehicle.
3. For shops - the type of goods on display which may attract attention.
4. Claims experience - normally a glass claim follows a burglary and the risk factor is therefore similar.

CHAPTER 11: Fidelity Guarantee Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the need for fidelity guarantee cover
- Describe the circumstances under which cover is offered
- Illustrate an understanding of the cover provided
- Display knowledge of the relationship between fidelity guarantee cover with other policy sections.

11.0 Introduction

Fidelity guarantee covers a business for losses due to fraud or theft by employees, directors, principals, partners or anyone else colluding with an employee.

It does not guarantee the employees honesty but it guarantees that if the employer suffers any direct financial loss arising out of the employees dishonesty the insurers share indemnify the said loss to the employer within the limitations prescribed by the contract.

11.1 Defined Events

1. Loss of money and /or other property belonging to the insured or for which they are responsible, stolen by an insured employee during the currency of this section.
2. Direct financial loss sustained by the insured as a result of fraud or dishonesty of an insured employee, all of which occurs during the currency of this section, which results in dishonest personal financial gain for the employee concerned.

Defined event 1 covers theft by an employee from his employer during the period that the section is in force.

Defined event 2 extends the cover from just theft but to include fraud and dishonesty of employees. There must be a direct financial loss which means that the insured must be able to quantify and link the loss directly to the fraudulent act of the employee.

The word “personal” is important, if an employee commits a fraudulent act and gains no financial benefit from it there is no claim under the policy. The fraudulent transaction must accrue to the employee for cover to be effective.

11.2 Discovery period

Discovery period provides for the discovery of the loss during a period of 12months after the expiry of the section, or termination of employment of the dishonest employee or employees.

11.3 Basis of cover

Fidelity Insurance is underwritten on one of these basis:

1. Blanket basis
This covers all the employees of the insured, with no names or positions being stated. The premium is based on the total number of employees and is subject to annual declaration.
2. Named or position basis.
Only those persons or positions named in the schedule are covered by the insurance. The use of a named basis can cause problems if the insured has a regular

staff turnover, for every time a new employee is engaged the section must be amended.

Insurers require a proposal form to be filled in by the insured. The proposal form has several questions that is meant to provide and guide the insurer on whether to accept or decline risk and if accepted pricing as well as terms and conditions.

11.3.1 Underwriting factors

1. Proposal form is mandatory; information required by underwriters to understand the risk will be provided on the proposal form.
2. The number of people working in the organisation and their responsibilities.
3. Is the owner hands-on or is the running of the financial/stock department(s) left to a dedicated person?
4. Accounting practices and checking mechanisms in place, both in respect of cash/cheque transactions and in respect of stock.
5. Claims experience.

11.4 Specific exceptions

1. Loss or damage resulting from or contributed to by any defined event by:
 - a. (i) any partner in or of the insured to the extent that such partner would benefit by indemnity granted under the policy. If the person involved is an owner of the company, he cannot defraud himself.
 - (ii) any principal, director or member of the insured unless such director or member is also an employee.
 - (iii) any employee from the time the insured shall become aware that such employee has committed any fraud or dishonesty.
 - b. any consequential losses of any kind following losses referred to under defined events.
2. This section does not cover any company or other legal entity acquired during the period of insurance.
3. The insurer shall not be liable for any defined event if it results from the dishonest:
 - (i) manipulation of
 - (ii) input into
 - (iii) suppression of input into
 - (iv) destruction of

(v) alteration of.

Any computer programme, system, data, or software by any insured employee who is employed in the insured's electronic data- processing department or area.

However, this exception does not apply to employees who are employed in the electronic data- processing department/ area of any non-networked micro/personal computer.

This is the computer fraud exception; cover can be offered following submission of a proposal form and after investigation of the security of the computer/ network system.

4. The insurer shall only be liable to the extent of the participation/ shareholding of any uninvolved partners/ principals/ directors or members for an insured event in which any partner/ principal/director or member of the insured is or has been directly involved.

This exception emphasises the position that it is only the interests of the persons who are not involved in the committed fraud that are covered.

11.5 Specific conditions

1. The insured shall institute and / or maintain and continue to employ in every material manner all such systems of check and control, accounting and clerical procedures and methods of conducting his business as has been represented to the company by the insured but the insured may:

(a) change the remuneration and conditions of service of any employee.

(b) in respect of any employee who is described in the schedule by name, change his duties and position.

(c) in respect of any employee who is described in the schedule only by the position held by him, remove such employee and place in his position any other person who falls within the definition of employee.

(d) make such other changes as are approved beforehand in writing by the insured's auditors.

This condition seeks to clarify that the insurer requires that the insured operates proper systems of checks and audits, the insurer will not interfere with the operations of the insured.

2. If the insured shall sustain any loss to which this section applies which exceeds the amount payable hereunder in respect of such loss, the insured shall be entitled to all recoveries (except from suretyship, insurance, reinsurance, security or indemnity taken or effected by the company or for the amount of any first amount payable) by whomsoever made on account of such loss until fully reimbursed, less the actual cost of effecting same,

and any remainder shall be applied to reimbursement of the company and the insured to the extent of his co- insurance in terms of item (b) the compulsory First amount payable clause.

This condition operates if the loss exceeds the sum insured, if the loss is within the sum insured, all recoveries go to the insurer in reduction of its loss. Examples of recoveries are pension funds benefits, salary and recovery of the actual goods.

11.6 Clauses and extensions

11.6.1 Accountants Clause

This clause ensures that there is no duplication of work between the insured's auditors and the company. It means that the company undertakes to follow any information put forward by the auditors without immediate query.

11.6.2 Extended Cover for Past employees' extension

Any person who ceases to be an employee shall for the purpose of this section be considered as being an employee for a period of 30days after he in fact ceased to be an employee.

11.6.3 Retroactive Cover Extension – No previous policy in force (if stated in the schedule to be included)

This section will also apply to defined events as insured herein which occurred up to 12months prior to inception of this section, but not more than 24months prior to discovery, provided the events are discovered within the sooner of 12months of the termination of the employment of the employee concerned or within 12months of the expiry of this section.

11.6.4 Superseded policy extension (if stated in the schedule to be included)

The loss must be discovered during the currency of this section or within 12 months thereafter. This extension limits cover to those losses which are excluded under a previous policy by being over the discovery time. This clause states that the sum insured is the lower of the current and superseded policies, this ensures that the superseded and current policies are not aggregated when a loss occurs over the two periods of insurance.

There might be confusion between the retroactive clause and the superseded policy clause. However, it should be noted that retroactive cover only operates if there is no previous insurance policy in place and additional premium is applicable.

11.6.5 Other Insurances

This clause has the effect that if there is an undisclosed policy covering the same risks in existence, no payment will be made under this section. If another policy has been declared, then the first amount payable is affected as per the following clause.

11.6.6 Compulsory First Amount Payable

As per the "Other insurances clause" above, if such a policy has been declared, the sums insured of the two policies are added together (aggregated) and the 2% calculated on the total.

11.6.7 Computer Losses First Amount Payable

As per exception number 3, non-networked computers are excepted from the exclusion. This clause imposes an additional excess to 20%.

11.6.8 First Amount payable for losses discovered more than 12 months after they were committed.

This clause is directed at those losses which are not discovered in a reasonable period, but such clause will have no effect on the insured unless his systems of checking are inadequate to detect fraud. The effect of this clause is to increase the first amount payable in situations of late discovery of fraud.

11.6.9 Voluntary First Amount Payable clause (if stated in the schedule to be included)

The insured does not pay the voluntary first amount in addition to the compulsory one. He pays the compulsory excess plus any difference between this and the voluntary amount selected.

11.6.10 Reduction/ Reinstatement of Insured Amount Clause (if stated in the schedule to included)

The insured is not automatically entitled to reinstatement. This extension therefore seeks to incorporate reinstatement. The insured must request for this and cover is offered subject to an additional premium. The total of reinstatements may not exceed double the initial sum insured.

11.6.11 Cost of recovery extension (if stated in the schedule to be included)

Cover is offered in addition to the sum insured and is offered at an additional premium. This clause relates to Specific condition 2, costs of recovery can be considerable particularly if Court proceedings are involved. All amounts recovered by the insured in excess of the said part of the loss shall be for the benefit of the insurer and the insured to the extent of his co-insurance.

11.6.12 Computer losses Extension (if stated in the schedule to be included)

This clause brings back cover excluded under the computer losses exception. Cover is subject to a satisfactory proposal form and payment of additional premium.

11.6.13 Extension for losses discovered more than 24 months after being committed but not more than 36 months thereafter (if stated in the schedule to be included)

As per proviso 1 (a) cover was limited to 24 months, this extension extends the period to 36 months subject to an additional premium.

11.6.14 Extension granted on receipt of a satisfactory systems audit in respect of losses discovered more than 24 months after being committed. (If stated in the schedule to be included)

If the insured undergoes a full audit of all their systems by an external accounting firm. If the findings are satisfactory to the insurer the extension which has the effect of amending the first amount payable maybe allowed, without the report the extension may not be given.

11.7 Memoranda

1. Paragraph (ii) of General condition 6 states “as soon as possible after the event, inform the police of any claim involving theft or (if required by the insurer) loss of property and take all practicable steps to discover the guilty party and to recover the lost or stolen property”

It is this condition that is affected by memorandum 1. The reason being that the recovery from the fraudulent employee is often more effective if the police are not involved initially. The employee often prefers to repay that which was taken rather than go to prison. If no recovery is possible then the prosecution of the offender is appropriate.

2. This memorandum originates from the fact that if a statement is made in a proposal form, with the intent to deceive, the insurer can avoid the claim. This clause makes it impossible for this to happen, if an officer of the insured who makes a false statement in the process of defrauding the insured i.e. is himself the criminal. This clause ensures that the insured is not prejudiced and will receive indemnity for his loss.

3. General Exceptions 1 and 2 and General Condition 9 do not apply to this section. General exception 1 and 2 are the SASRIA and Nuclear exclusions, General Condition 9 is that pertaining to automatic reinstatement.

4. If the sum insured is increased at any time, such increased amount shall apply only to defined events committed after the date of such increase.

If the loss is discovered that was committed prior to the date of increase, the sum insured applicable at the time of commission will apply.

CHAPTER 12: Goods in Transit Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the client needs in relation to goods in transit cover
- Describe the different types of cover offered
- Illustrate an understanding of how pricing is arrived at as well as the scope of cover offered.

12.0 Introduction

Goods in transit section is an all risk policy, except the specific exceptions mentioned in the policy. However, restricted cover is also available at a premium discount which will be discussed later in the chapter.

Period of cover starts when the good leaves the premises and includes

1. Loading and unloading
2. Temporary overnight storage
3. Temporary form overnight storage however, forcible violent entry / exit condition applies.

Cover is meant to cover goods transported by companies using their own vehicles, third party transporters are excluded, specialist Goods in transit cover is more suitable.

12.1 Defined Events

Loss or damage to the whole or part of the property described in the Schedule owned by the insured or for which they are responsible, in the course of transit by means of conveyance or other means incidental thereto and caused by an accident or misfortune not otherwise excluded.

Provided that:

- (i) the insured shall be responsible for the first amount payable stated in the schedule in respect of each defined event except a claim arising from fire, lightning or explosion.
- (ii) the liability of the company for all loss or damage arising out of one defined event shall not exceed the limit of indemnity stated in the schedule.

12.2 Memoranda

1. Cover is for goods consigned and is extended to include loading and unloading as well as 96 hours storage during the journey.
2. If the goods are rejected by the consignee the cover continues whilst the goods are being returned by any conveyance. The only proviso is that the insured must arrange to get the goods back as soon as it is reasonably possible.
3. This memorandum states that the insured does not have to notify the insurer every time he does a temporary substitution of a vehicle.
4. An insured has an obligation to safeguard his property, this memorandum provides the parameters within which he can operate in order to fulfil his common law duty.

12.3 Debris removal extension (if stated in the schedule to be included)

The insurance under this section includes costs necessarily incurred by the insured in respect of the clearing up and removal of debris following damage to the means of conveyance or the property thereon, subject to a limit of R1,000 or the limit stated in the schedule, whichever is the greater, in respect of any one defined event.

The sum insured may be increased at the insured's request.

12.4 Restricted cover

Fire, explosion, collision, derailment and overturning limitation (if stated in the schedule to be included).

The insurance under this section is limited to loss or damage resulting from fire or explosion or collision or the overturning or derailment of the means of conveyance described in the schedule.

This means premium will also be reduced as cover has been restricted.

Theft following hijack can also be added to the restricted cover.

12.5 Specific exceptions

The insurer shall not be liable for:

1. loss or damage resulting from or caused by:

(a) theft from any unattended vehicle in the custody or control of the insured or any principal, partner, director or employee of the insured unless the property is contained in a completely closed and securely locked vehicle or the vehicle itself is housed in a securely locked building and entry to or exit from such locked vehicle or building is accompanied by forcible and violent entry to or exit.

(b) inherent vice or defect, vermin, insects, damp, mildew or rust.

Inherent vice is the quality that something must deteriorate or damage itself by natural processes without the operation of any external agency. e, g food may rot.

Damp is excluded because it occurs gradually.

(c) the dishonesty of any principal, partner, director or employee of the insured whether acting alone or in collusion with others.

This is the Fidelity exclusion and should fall under the Fidelity section.

(d) detention, confiscation or requisition by customs or other officials or authorities.

This cover is offered by the Marine market.

(e) or arising whilst in transit by sea or inland transit incidental thereto

This cover is properly offered by the Marine Market.

(f) breakdown of refrigeration equipment

Cover is best offered by a Machinery breakdown policy or Deterioration of stock policy.

2. Wear and tear or gradual deterioration (including the gradual action of light or climatic or atmospheric conditions) unless following an accident or misfortune not otherwise excluded.

3. Mechanical or electrical breakdown, failure, breakage or derangement of the insured property unless following an accident or misfortune not otherwise excluded.

This exclusion refers to the goods being carried, as this is a trade risk. However, if the derangement etc follows an accident then the loss is insured.

4. (a) Money in all its form is excluded as this cover is best offered under Money section.

(b) Consignments from or to any place outside the territorial limits is best covered under the Marine policy.

(c) Any more specific insurance takes precedence in the event of a claim. Only if there is a balance of claim left after exhausting the more specific cover would this operate.

5. Consequential loss of any kind, delay, loss of market, depreciation or changes brought about natural causes.

12.6 Special Extensions

12.6.1 Fire Extinguishing Charges

Covers fees incurred to extinguish or attempt to extinguish the fire. Indemnity shall not exceed the limit shown in the schedule.

12.6.2 Riot and Strike Extension

Provides SASRIA cover outside the borders of South Africa and Namibia.

12.7 Underwriting factors

1. Premium can be calculated based on estimated annual carry or limit per load. The preferred method is load limit and applies per vehicle.
2. Description of goods being carried – the type of goods being and susceptibility to theft or damage must be considered. A minor accident may result in damage to fragile goods.
3. Packaging – how the goods are packaged must considered like are the goods in an open vehicle or enclosed vehicle, are the goods well protected from damage?
4. New or second-hand goods – it is advisable to underwrite second hands on restricted cover basis as it is difficult to determine their value as compared to new goods.
5. Conveying vehicle – the security features of the conveying vehicle must be considered, what are the anti-theft features on the vehicle for example tracking device.
6. Area – the area the goods are being transported to must be considered, the state of the roads, crime and the like.
7. Duration – the shorter the distance the better the risk.
8. Weight – can the goods be easily offloaded and carried.

12.8 First amount payable

This section is subject to a first amount payable, an additional excess is applicable for theft and hijack claims.

CHAPTER 13: Business All Risk Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the “all risk” concept of cover
- Describe the client needs in relation to the cover offered
- Illustrate an understanding of the scope of cover as well as pricing considerations.

13.0 Introduction

Cover is in respect of any loss or damage to property from virtually any cause whatsoever unless the cause of damage is listed under the exceptions then cover is afforded.

Cover provided on this section is worldwide cover and is meant to cover equipment that is taken away from the insured's premises. For example, companies like audit firms and consultancy firms where they have staff off the premises and visiting clients.

13.1 Defined events

Loss of or damage to the whole or part of the property described in the schedule while anywhere in the world by an accident or misfortune not otherwise excluded, provided that the insured shall be responsible for the first amount payable stated in the schedule in respect of each and every event other than a claim arising from fire, lightning or explosion.

13.1.2 Underwriting considerations

1. Property suited for a more specific policy like electronic equipment and engineering must not be insured on this section.
2. A proper description of the property is required; serial numbers must always be provided.
3. Sum insured must a true representation of the replacement value
4. If cover is Offered on a blanket basis like "office desktop computers" a limit any one item (L.AO.I) must be provided.
5. Property / equipment hired out without the direct custody and control of the insured are excluded.
5. Laptops and handheld devices like tablets must be insured under the Electronic Equipment as wider cover is available on this section.

13.1.3 First Amount payable

This section is subject to an excess. Excesses are applicable per section and dependent on the item on cover.

A higher excess is also applied to goods where there is no lightning or power surge protection.

13.2 Specific Exceptions

Exceptions are important under the Business All Risk section since there is wider cover. Exceptions / excluded are important in order to ensure that the insured takes reasonable care and precautions for the safety of his property.

1 (a) Theft from an unattended vehicle unless from closed and securely vehicle or if the vehicle is in a securely locked building and entry to the building is accompanied by forcible and violent entry or exit.

(b) it is undergoing a process of cleaning, repair, dyeing, bleaching, alteration or restoration.

(c) inherent vice or defect, vermin insects, damp, mildew, or rust.

(d) the dishonesty of any principal, partner, director or employee of the insured, whether acting alone or in collusion with others.

This cover is offered under Fidelity section.

(e) detention, confiscation or requisition by customs or other officials or authorities.

2. Wear and tear or gradual deterioration (including the gradual action of light or climatic or atmospheric conditions) unless following an accident or misfortune not otherwise excluded.

3. Mechanical, electronic or electrical breakdown, failure, breakage or derangement unless caused by an accident or misfortune not otherwise excluded.

Appropriate cover is offered under the Engineering policy. However, if a cause that is not excluded creates the loss, the claim can fall under this section.

4. loss or damage to cash, bank and currency notes, coins, bonds, coupons, stamps, negotiable instruments, title deeds, manuscripts or securities of any kind.

This cover is better suited under the Money section.

5. Loss or damage to goods consigned under a bill of lading. This is insurable under a Marine policy.

13.3 Specific Conditions

13.3.1 Average

The average condition has been explained previously. However, it should be noted that average condition does not apply to items which are individually specified in the schedule but only to groups of items put into one item.

13.3.2 Replacement value condition

There are two considerations on this condition:

1. Is the sum insured enough to cover the replacement cost, if not average will apply.
2. Will the replacement be better than the original, if it is then the concept of betterment will apply, and the insured will have to contribute toward the cost of the replacement.

13.4 Specific extensions

13.4.1 Increase in cost of working

This will be used, for example to cover the cost of hiring an item of machinery while the damaged item is being repaired.

13.4.2 Riot and Strike extension

Provides SASRIA cover outside the Republic of South Africa and Namibia.

13.5 Remote Jamming

Remote jamming is a new trick which has gained popularity over the last few years. Insurers had to come up with ways to deal with this problem. As per exception 1 theft from an unattended vehicle is excluded unless accompanied by forcible and violent entry/exit, which means losses as result of remote jamming are excluded. However, if there is proof of remote jamming like CCTV camera then the loss is covered in full. If no evidence, then cover is limited, some insurers limit cover to R15,000.

On the other hand, some insurers offer cover at an additional premium.

CHAPTER 14: Accidental Damage Section

Learning Outcomes

A good understanding of this chapter will ensure:

- Explain the need for accidental damage cover and how the section is linked to other sections.
- Describe the different types of cover offered by this section.

- Illustrate an understanding of the cover offered in relation to client needs.

14.0 Introduction

This section covers any accidental physical loss or damage to property that is not covered in any other section of the policy. This section does not override or replace any other section of the policy and cannot be called into contribution for any loss that would fall under any other section of the policy.

14.1 Defined Events

Accidental physical loss of or damage to the insured property at the premises by any cause not excluded by this section or otherwise insured for which insurance is available and described (whether incorporated in this policy or not) in terms of any section (other than Business All Risks) listed in the index of this policy.

The amount payable for all loss or damage arising out of one original cause or source shall not exceed the sum stated, and notwithstanding General 2, this section shall not be called into contribution for any insured event for which more specific insurance has been arranged.

The cover is on All Risk basis therefore, the important part of this section is the exceptions as it stresses what is not covered.

14.1.2 Underwriting considerations

Cover is offered either on First loss basis or Full value. If cover is on loss basis the first loss average applies.

1. Type of business is to be considered – whether the items are susceptible to breakage or not. Insurers classify risks according to susceptibility of damage and rate/premium is determined according to the risk classification.
2. Each risk is looked at independently with particular attention to risks which could result in damage, like overloading of shelves.
3. Breakage is a substantial risk when it comes to glassware, crockery and bottled goods therefore cover must be limited for these items.

14.2 Specific exceptions

(a) any peril excluded, or circumstances precluded from any other insurance available from the company at inception hereof nor for any excess payable by the insured under such insurance nor for any reduction of amount payable under any claim due to the application of average.

This exception emphasises the fact that this section does not cover differences in conditions but rather difference in cover.

(b) more than the individual value of any item forming part of a pair or set or collection without regard to any special value such item may have as a pair, set or collection.

This refers to the “pairs and sets clause” normally applicable to All Risks policies. What it essentially means is that the sum of the whole is greater than the sum of the individual. Therefore, if only part of the pair or set is lost or damaged then only the proportionate value of that part is paid.

(c) detention, confiscation, attachment, destruction or requisition by any lawfully constituted authority or other judicial process.

(d) unexplained disappearance or shortage only revealed during or after an inventory or errors or omissions in receipts payments or accounting or misfiling or misplacing of information.

(e) loss of or damage to insured property caused by:

(i) any fraudulent scheme, trick, device or false pretence practiced on the insured (or any person having custody of the insured property) or fraud or dishonesty of any principal or agent of the insured.

(ii) overheating, implosion, cracking, fracturing, weld failure, nipple leakage or other failure. This exception only applies to vessels, pipes, tubes or similar apparatus.

This cover is insured under an Engineering policy.

(iii) breakdown, electrical, electronic and/or mechanical derangement.

This cover is insured under an Engineering policy.

(iv) altering, bleaching, cleaning, dying, manufacture, repair, restoring, servicing, renovating, testing or any other work thereon.

(v) fault or defect in its design, formula, specification, drawing, plan, materials, workmanship or professional advice, normal maintenance, gradual deterioration, depreciation, corrosion, rust, oxidation or other chemical action or reaction to frost, change in temperature, expansion or humidity, fermentation, or germination, dampness, dryness, wet or dry rot shrinkage, shrinkage, evaporation, loss of weight, contamination, pollution, change in colour, flavour, texture or finish or its own wear and tear.

(vi) denting, chipping, scratching or cracking not affecting the operation of the item.

This exception relates to cosmetic faults if the item works and superficial damage is excluded.

(vii) termites, moths, insects, vermin, inherent vice, fumes, flaws, latent defect, fluctuations in atmospheric or climatic conditions, the action of light.

This is a trade risk and therefore uninsurable.

(viii) settlement or bedding down, ground heave or cracking of structures or the removal or weakening of support to any insured property;

(ix) loss or damage:

(i) to chemicals, oils, liquids, fluids, gases or fumes due to leakage or discharge from its container

(ii) loss or damage resulting from leakage or discharge of chemicals, oils, fluids, gases or fumes;

Cover is available in some cases subject to the business of the insured.

(x) failure of and/or the deliberate withholding and/or lack of supplies of water, steam, gas, electricity, fuel or refrigerant.

Cover is available under the Business interruption section.

(i) collapse of plant and machinery, buildings and structures (other than shelves) or storage platforms)

Cover is available under an Engineering policy.

14.3 Definitions

14.3.1 Insured property

Any tangible property belonging to the Insured or held in trust or on commission for which they are responsible other than:

It is important to note that cover is in respect of any property with a physical form as defined by the word "tangible".

(a) current coin (including Kruger Rands and similar coins), bank and currency notes, travellers and other cheques, money and postal orders, credit card vouchers, and other certificates, documents or instruments of a negotiable nature.

Cover is provided under the Money section

(b) furs, jewellery, bullion, precious and semi-precious metals and stones, curiosities, rare books and works of art.

Cover is provided under the All Risks section.

(c) property in transit by air, inland waterway or sea.

Cover is provided under the Goods in Transit section or Marine policy.

(d) railway locomotives, rolling stock and other railway property, aircraft, watercraft, mechanically or electrically propelled vehicles, motorcycles, mobile plant, caravans and trailers.

Cover is provided under specific policies like Aviation and Marine.

(e) standing or felled trees, crops, animals, land (including topsoil, backfill, drainage and culverts), driveways, pavements, roads, runways, dams, reservoirs, canals, pipelines (external to the premises), tunnels, cables (external to the premises), cableways, bridges, docks, jetties, wharves, piers, excavations, property below the ground or explosives.

(f) electronic data-processing equipment and external data media (punch cards, tape discs and the like) and the information they contain.

Cover is provided under the Electronic Equipment policy.

(g) property in the course of construction, erection or dismantling including materials or supplies related thereto.

Cover is provided under the Contract works policy.

(h) property in the possession of customers under lease, rental, credit or suspensive sale agreements

The risk of loss or damage has been transferred to the insured's customer.

(i) glass, china, earthenware, marble and other fragile or brittle objects.

These items are susceptible to damage therefore not an attractive risk.

14.4 Defined Event (ii)– Leakage (if stated in the Schedule to be included)

This cover was excluded under exceptions (h) above, this is where this cover can be added back.

Accidental physical loss of or damage to the insured property caused by discharge or leakage from tanks, pipes, apparatus or medical containers of chemicals, oils, liquids, fluids, gases or fumes (including loss of such chemicals, oils, liquids, fluids, gases or fumes) other than loss or damage resulting from wear and tear or other gradually operating causes of the tanks, pipes, apparatus or medical containers.

14.4.1 Underwriting considerations.

Cover is only offered on First loss basis.

The following information must be provided:

1. The number of tanks and the volume.
2. Probable maximum loss
3. Methods used in opening tanks and general upkeep
4. Number of staff
5. Methods of Prevention and precautions.

14.5 Clauses and Extensions

14.5.1 Restricted cover Clause

This clause makes it clear that in the event of destruction of records the claim will be for the cost of recreating the records not for the value of the information contained in the records.

14.5.2 Additional costs clause

As previously discussed under the Fire section. This clause caters for additional costs incurred by the insured to rebuild buildings in accordance with the regulations provided the sum insured is adequate.

14.5.3 Mortgagee clause

This clause ensures that the mortgagee (the lender) is not prejudiced by any acts committed by the mortgagor (the borrower) of which the mortgagee has no knowledge of.

14.5.4 Railway and other Subrogation Clauses

The insurer has a full right of subrogation following payment of a claim. Signing of the Transnet Cartage and other special agreements removes the right of the insurer against these bodies; however, this clause ensures that the insured is not prejudiced.

14.5.5 Tenants Clause

This clause ensures that the owner is not prejudiced by any acts committed by the tenant of which the owner has no knowledge of.

14.6 Memorandum

14.6.1 Average (if stated in the schedule to be included)

This clause will only apply if cover is full sum insured basis.

14.6.2 Excluded property (if stated in the schedule to be included)

This memorandum is used to expand on the list of excluded property.

14.6.3 Reinstatement (if stated in the schedule to be included)

It may be thought that putting something back to its new state would be a breach of the principle of indemnity. However, the insured is required to insure property for its new value and pay the corresponding premium. Therefore, indemnity is satisfied when property is reinstated. Payment for reinstatement will only be made if the insured has actually incurred the cost of reinstatement.

14.6.4 First loss Average (if stated in schedule to be included)

Accidental damage is either written on Full Sum insured or First loss basis. If the first loss basis is used the full sum insured must be shown in the total value column as premium is based on a percentage of the full value rate.

If cover is based on Full Sum insured, then the Average memorandum must be shown on the policy schedule. If cover is issued on First Loss basis, then the First loss average must be shown on the schedule.

CHAPTER 15: Group Personal Accident and Stated Benefits Section

Learning Outcomes

At the end of this chapter, you should be able to:

- Explain the difference between personal accident and stated benefits in relation to premium calculation and benefits
- Describe the cover offered
- Illustrate an understanding of the need for group personal accident and stated benefits cover.

15.0 Introduction

Insurance policies are based on the principle of indemnity, however as it is impossible to put a financial value on someone's life or limbs. Therefore, stated benefits and personal accident policies are policies of compensation and not indemnity. An employer takes out a personal accident policy for the benefit of the employees to supplement the benefits offered by the Compensation for Occupational Injuries and Diseases Act (COIDA).

Personal Accident is issued on actual sums insureds like death is a specific value. Premium is calculated by applying a specific rate to the sum insured. This cover is suitable for people who do not have a fixed income like self-employed people.

Stated benefits are directly related to one's earnings for example the sum insured for death cover will be 3 x annual earnings. Premiums is calculated based on the annual earnings. This cover is suitable for companies with a several employees and any benefit received under COIDA are deducted from the amount payable for temporary disability or medical expenses.

15.1 Defined Events

Bodily injury caused by accidental, violent, external and visible means to any principal, partner, director or employee of the Insured (hereinafter in this Section referred to as such person) specified in the Schedule. The Company will pay to the Insured the compensation stated in the Schedule in the event of accidental bodily injury to any such person directly and independently of all other causes resulting within twenty-four (24) calendar months in death or disability as specified in the Schedule under the heading "circumstances".

15.1.2 Underwriting Considerations

1. It should be noted that cover is as a result of external accident and natural causes are not covered.
2. The first consideration is to establish occupation and sporting activities, as dangerous occupation and sporting are normally excluded.
3. Age limit – only persons who are between 15 and 75 must be covered.
4. Financial status - attention should be paid to requests for huge sums insureds which are not in line with the financial status of the insured.
5. Rates/ premiums are also determined according to occupational classes provided by the insurer in the underwriting guideline.

15.2 Memoranda:

(i) Percentage of permanent disability means bodily injury resulting in total and absolute disablement preventing the Insured Person from following the usual occupation any other occupation for which he or she is suited by education or training. The compensation is determined according to degree of disability. The table of benefits will be provided by insurers in the policy wording.

(ii) Permanent total loss of use of part of the body shall be treated as loss of such part.

(iii) 100 per cent shall be the maximum percentage of compensation payable for permanent disability resulting from an accident or series of accidents arising from one cause in respect of any one such person.

15.3 Definitions

15.3.1 Temporary total disability shall mean total and absolute incapacity from following usual business or occupation.

15.3.2 Medical Expenses all costs and expenses necessarily incurred for artificial aids, prostheses, medical, surgical, dental, nursing home or hospital treatment (including costs and expenses incurred in emergency transportation or freeing such person if trapped or bringing such person to a place of safety) as a result of bodily injury and incurred within twenty-four (24) months of the defined event.

15.3.3 Annual earnings shall mean the annual rate of wage, salary and cost of living allowance being paid or allowed by the insured to such person at the time of accidental bodily injury, plus overtime, house rents, food allowances, commissions and other considerations of a constant nature.

15.3.4 Business limitation (if stated in the schedule to be applicable) this clause provides cover being limited to accidents in the course of employment.

15.3.5 Average weekly earnings shall mean one fifty – second part of annual earnings.

15.4 Provisos

It is declared and agreed that:

1. the Company shall not be liable to pay, for death or disability resulting from an accident or series of accidents arising from one cause in respect of any one such person, more than the compensation payable for death or permanent disability (whichever is the higher) plus any compensation payable for temporary total disability and medical expenses.

2. the compensation specified for temporary total disability shall be payable for not more than the number of weeks stated in the Schedule and such payment shall cease as soon as

the injury causing the incapacity has healed as far as is reasonably possible, notwithstanding that permanent disability may remain.

3. unless otherwise provided herein, this Section shall not apply to any such person under 15 or over 70 years of age.

4. after suffering accidental bodily injury for which compensation may be payable under this Section, such person shall, when reasonably required by the Company to do so, submit to medical examination and undergo any treatment specified. The Company shall not be liable to make any payment unless this Proviso is complied with to its satisfaction.

5. General Conditions 2 and 10 do not apply to this Section.

6. in respect of this Section only, General Exception 1 is deleted and replaced by the following: "This Section does not cover death or injury directly or indirectly caused by, related to or in consequence of war, invasion, act of foreign enemy, hostilities (whether war be declared or not), civil war, mutiny, insurrection, rebellion, revolution, military or usurped power".

15.5 Extensions

15.5.1 Exposure

Bodily injury shall be deemed to include injury caused by starvation, thirst and/or exposure to the elements, directly or indirectly resulting from mishap.

15.5.2 Disappearance

In the event of the disappearance of any such person in circumstances which satisfy the insurer that he/she has sustained injury to which this Section applies, and that such injury has resulted in the death of such person, the insurer will, for the purposes of the insurance afforded by this Section, presume his death, provided that if, after the insurer shall have made payment hereunder in respect of such person's presumed death, he is found to be alive, such payment shall forthwith be refunded by the Insured to the Company

15.5.3 Life support machinery

Notwithstanding anything contained in the defined events, the twenty-four (24) month period stated therein shall not include any period or periods where the death of such person is delayed solely by the use, for periods of not less than three consecutive days of life support machinery, equipment or apparatus.

15.5.4 Burns and disfigurement (if stated in the schedule to be included)

Medical treatment for accidental burns is covered under the medical expenses item. Under the optional burns disfigurement extension to the scale of benefits, insurers also pay

compensation for permanent disfigurement. This is up to 50% of the amount insured, depending on the percentage area disfigured, if this is on the face or neck, and up to 25% if this is on the rest of the body.

If there is less than 10% disfigurement, there is no claim under this extension.

Usually, the rate charged for PTD is loaded by 25% to 50%, depending on the risk.

15.6 Specific Exceptions

(a) Death, disability or medical expenses incurred as a part of air travel (in the course of piloting or crewing on an aircraft): except as a passenger, not necessarily fare-paying. There is no restriction on the type of aircraft.

(b) By suicide or intentional self – injury.

(c) Existing physical defect or other infirmity.

(d) As a result of the influence of alcohol, drugs or narcotics, unless administered or prescribed by a member of the medical profession and taken on doctor's orders.

(e) As a result of participating in any riot or civil commotion.

(f) In the case of females, caused directly or indirectly, accelerated by or attributable to pregnancy, childbirth, abortion, miscarriage, obstetrical procedures or any secondary consequence related thereto.

(g) As a result of engaging in:

(i) Motor Cycling

(ii) Racing of any kind involving the use of any power – driven vehicle, vessel, craft, mountaineering necessitating the use of ropes, winter sports involving snow or ice, polo on horseback, steeplechasing, professional football or hand gliding.

Cover is available for these exceptions at an additional premium.

SASRIA cover is not needed and is not applicable to this section.

CHAPTER 16: Public Liability Section

Learning outcomes

By the end of this chapter, you should be able to:

- Explain client need for Public Liability and the scope of cover required
- Explain the difference between public liability and Broadform liability
- Describe the different basis of cover for public liability
- Illustrate an understanding of scope of cover offered including the exceptions and conditions applicable.

16.0 Introduction

This section is in respect of cover when the insured is legally liable to a third party for injury, death or damage to their property. If one fails to behave in a reasonable manner towards others, he or she is legally obligated to pay compensation for anyone who is injured or whose property is damaged. Liability cover is not usually compulsory however, it is compulsory for some business activities and some clients require liability cover as a condition for awarding contracts.

Commercial Liability policy is mostly concerned with delictual actions that is civil actions brought by an injured party against the party who caused his injury. A delict may be defined as a breach of a general duty imposed by common law giving rise to a civil action at the suit of the injured person.

Due to the increasingly litigious society, we are living in, all businesses including individuals must have some form of liability insurance. As this cover is not expensive it is advisable that higher limits be taken due to the exorbitant prices of the litigation process.

16.1 Basis of cover

16.1.1 Losses occurring

Losses occurring basis - the policy will respond if the actual injury or damage suffered by the claimant occurred during the period of insurance regardless of when the claimant brings his action.

16.1.2 Claims made

Claims made basis - the policy will respond if the claimant brings his action against the insured during the period of insurance regardless of when the injury or damage actually incurred or when the act which gave rise to the claim occurred. Due to the lag time between the occurrence of an event giving rise to a claim and the reporting of the claim it normally referred to as long tail claims. For example, mine workers who were exposed to asbestos led to asbestos related to illnesses, the diseases were only discovered years later when employees started falling sick.

16.2 Legal principles

Liability arises out of contract, statute, delict and vicariously.

16.2.1 Contract

This section excludes liability that arises out of contract unless it is within the confines of the common law. Illegal contracts or contracts against public policy and good morals are also not covered.

16.2.2 Statute

This section will not cover duties and penalties imposed by statute for example the Occupation Health and Safety Act. Failure to comply can result in a criminal charge. Although defence costs against this are covered, if the defence fails, the insured is not indemnified against the fines and penalties laid down by the State.

16.2.3 Delict

People have a legal duty to behave in a reasonable manner towards others and not harm or damage their property. What is important is whether the harm that resulted could reasonably have been foreseen and avoided by a normally prudent person in the same position.

16.2.4 Vicarious liability

An employer can be held liable for the actions of employees, arising out of the scope and course of their employment.

16.3 Limits of Indemnity

The amount payable, inclusive of any costs and expenses for any claim or number of claims for any one or series of events with one originating cause or source shall not exceed the limit of indemnity stated in the schedule.

In the event of any one originating cause giving rise to a claim or series of claims which form the subject of indemnity by more than one extension of this Section, each Extension shall apply separately and be subject to its own separate limit of indemnity. However, the insurers liability shall be limited to the highest limit of indemnity available under any one of the Extensions affording indemnity for the claim or series of claims.

Where more than one period of insurance of this Policy, following its renewal or replacement may apply to an originating cause or sources, the Insurer's liability will be limited to the maximum Limit of Indemnity for any one such period of insurance.

16.4 Territorial limits

Anywhere in the world but not in connection with any business carried on by the Insured at or from premises outside or any contract for the performance of work outside the Republic of South Africa, Namibia, Botswana, Lesotho, Swaziland, Zimbabwe and Malawi.

16.5 Specific Exceptions

1. Employees

Liability consequent upon injury to any employee arising from and in the course of employment by the insured.

2. Property

Property belonging to the insured and in the custody or control of the insured or any employee. As cover for property held in trust is provided under the property damage policy.

3. Professional advice, vehicles, aircraft, products.

(a) Professional advice or treatment of a professional nature other than first aid given or at the direction of the insured.

The insured can get cover for professional advice by means of an endorsement to this section.

(b) caused by or through or in connection with the ownership, possession or use by or on behalf of the insured of any:

Mechanically propelled vehicle (other than a pedal cycle or lawnmower or any pedestrian controlled garden equipment), trailer, watercraft (other than non- motorised watercraft not exceeding 6 meters in length and used only on inland waterways), locomotive or rolling stock.

There is cover for the loading and offloading of vehicles, if this is not done in the street and provided that the liability is not insured by any other policy

(c) Aircraft caused by or through or in connection with:

(i) refuelling or defueling of aircraft

(ii) the ownership, possession, maintenance, operation or use of aircraft or an airline

(iii) the ownership, hire, or leasing of any airport, airstrip, or helicopter pad.

(d) Products caused by or through or in connection with any product other than food and drink provided for consumption on the premises of the insured.

4. Vibration and removal of support

5. Liability from pollution unless pollution is caused by sudden, unintended and unforeseen occurrence. That is gradual pollution is not covered.

6. Fines, penalties etc.

7. Awards or settlement damages in respect of judgements, award or settlement made within the USA and Canada.
8. Events known to the insured prior to the inception of the policy section.
9. The insured shall be responsible for the first amount payable as stated in policy schedule.
10. Liability upon injury or damage arising out of the deliberate, conscious and intentional disregard by the insured to take reasonable precautions.
11. There is no cover if the insured makes himself guilty of unlawful competition, unfair practices, abuse of monopoly power, cartel activities or in breach of a provision of the competition act.

16.6 Extensions

16.6.1 Extended reporting option

Only applicable on the claims made policies.

If the insurers have cancelled the cover or refused to renew it, and the insured has not obtained new insurance equal in scope and cover, the insured has the option to pay an additional premium and be allowed to report events that occurred during the currency of the policy for a (maximum) period of 36 months after cancellation. The insured must take up this option in writing within 30 days after cancellation.

16.6.2 Additional insured

Cover is extended to other parties in addition to the insured. For example, if the insured makes use of a sub-contractor, if there is no contract between the principal and the sub-contractor, then the insured will be liable for the actions of the subcontractor.

16.6.3 Security firm's liability

If the insured contracts the services of a security firm to secure the insured's property, the insured becomes liable for any acts or omissions of the security firm's employees.

16.6.4 Cross liabilities

Where more than one insured is named in the schedule, the insurer will indemnify each insured separately and not jointly, and any liability arising between such insured's shall be treated as though separate policies had been issued to each, provided that the aggregate liability of the company shall not exceed the limit of indemnity stated in the schedule.

16.6.5 Tools of trade

Specific exception 3(b) shall not apply to the operation as a tool of any vehicle or plant forming part of such vehicle or attached to it.

16.6.6 Employees and visitor's property

This means that the exclusion of property under the protection or control of the insured does not apply to the property of employees and visitors as per specific exception 2 (a)(ii).

16.6.7 Liability by agreement

Notwithstanding the provisions of Specific exceptions 2(a) (ii), 3(b) and 5, this section extends to indemnify the insured:

1. against liability assumed by the insured under any contract entered into with or indemnity given to Transnet, government or quasi-government departments, provincial administrations, municipalities and/or similar bodies covering the use of railway sidings or in respect of cartage (hazardous premises) agreements and/or agreements of a similar nature.
2. against liability arising from loss of or damage to property belonging to Transnet while in the insured's custody or control.
3. in respect of liability caused by or through or in connection with any vehicle, trailer, locomotive or rolling stock belonging to Transnet while being used by or on behalf of the insured at any railway siding.

16.6.8 Unattached trailers

This extension extends cover to trailers not hitched to the towing vehicle or which did not deliberately become detached from it.

16.6.9 Emergency medical expenses

This extension covers for reasonable costs for emergency medical treatment for the person necessary at the time of an accident causing injury.

16.6.10 Car parks

Cover provided for by this extension is in terms of liability arising out of the use of car park provided by the insured.

16.6.11 Tenant' s liability

Specific exceptions 2(a) (ii) and 3(b) of this section shall not apply to premises occupied by the insured as tenant (but not as the owner).

16.6.12 Products liability (if stated in the schedule to be included)

This extension overrides the products liability exception and provides cover at an additional premium. There must be injury to persons or damage to property.

If the liability attaches at the insured's premises the General liability section will respond.

Apart from defects in the goods themselves, other aspects include:

- (i) defective containers—the contents might be contaminated by defective packaging, or a bottle might burst
- (ii) wrong labelling – incorrect or insufficient instructions on the label can also lead to harm
- (iii) wrongful delivery
- (iv) delivery of the incorrect goods

16.7 Additional Specific Exceptions (applicable to products liability extension)

1. The cost of repair, alteration, recall or replacement of the goods or products.

Cover is available from the specialist market for under Product recall and product guarantee policies

2. For the cost of demolition, breaking out, dismantling, delivery, rebuilding, supply and installation of the product and any other property essential to such repair, alteration or replacement unless physically damaged by the product;

16.8 Broadform liability

The introduction of the Consumer Protection Act (CPA) in 2011, The Act is aimed at promoting fairness, openness and good business practice between the suppliers of goods or services and consumers of such goods and services. CPA introduced strict liability or no-fault liability; the claimant can sue anyone in the supply chain.

Broadform liability was introduced to cater for the provisions of the CPA. This is wider cover as compared to the normal public liability cover.

16.8.1 Sections that make up Broadform Liability

1. Public Liability

The word accidental is removed from the operative clause.

2. Pollution Liability

Accidental release of pollutants into the environment.

3. Products Liability and defective workmanship

Injury or damage arising out of the harmful nature of the insured's products or out of negligent whilst working on a product.

16.8.2 Extensions

1. Statutory Defence Costs

Legal expenses in defence of a criminal action.

2. Wrongful Arrest

Wrongful arrest, false imprisonment and any related assault caused by the insured.

3. Defamation

Defamatory statements whether verbal or written.

4. Employers Liability

Employees injured in the workplace

5. Negligent gratuitous advice

Injury or damage arising out of free advice given in promotion of the insured's products or services.

There are other various extensions available as the policy is flexible like custody and control, warehouse, contractors and carriers.

16.9 Underwriting considerations

1. Proposal form must be requested as it assist in providing the necessary information required to underwrite the risk.

2. Business activities and description – all the activities of the insured must be considered, the number of years the business has been operating is also important it gives insight into the experience of the insured.

3. Estimated annual wages gives an idea of how big the business is and if its labour intensive or not. Labour intensive businesses are more likely to experience more losses associated with human error.

4. Details of countries if any that the insured exports to.

5. Defective workmanship and Products liability are rated separately according to risk classifications provided by the insurer.

CHAPTER 17: Electronic Equipment Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the need for electronic insurance
- Describe how claims will be paid for (i) partial loss (ii) total loss

- Illustrate an understanding of the scope of cover offered by the electronic equipment section
- Illustrate knowledge and differentiate between the sub section (a) Material damage (b) consequential loss.

17.0 Introduction

This section covers electronic data processing equipment. The section consists of the following sections:

Sub section A – Material damage

Sub section B – Consequential loss

This section is where all the electronic processing equipment for a company are insured like, computers, laptops, printers and the like. This section is suitable for any business or organisation with electronic equipment.

17.1 Sub section A: Material Damage

Defined Events

Cover is on All risk basis meaning if the cause of loss is not excluded then it is covered. This section provides for loss or damage at the insured's own premises, in transit, including temporary storage en-route as well as temporary removal from the insured's premises to any other location.

17.2 Exceptions to Sub Section A: Material Damage

1. First amount payable of a claim. If more than one item is damaged in the same occurrence, the excess applicable is the highest single amount, but the excesses are not cumulative.
2. Derangement unless accompanied by physical damage otherwise covered by this section.
3. Loss or damage recoverable in terms of any maintenance and/or leasing agreement.
4. Faults and defects known to the insured or his employees at the time the insurance of this section was arranged.
5. Wastage of material, wear and tear, deterioration and scratching, painted or polished surfaces of a cosmetic nature.
6. Parts with a short life such as bulbs, valves etc.
7. Reproducing data

8. Loss of use of the property or other consequential loss, damage or liability unless specifically provided for in the policy.

9. (a) Theft or disappearance of insured property from the insured premises unless specifically provided for in the policy.

(b) Theft while the insured property is in transit or temporarily removed from the insured premises, unless identified by the insured with a specific incident, which has been immediately reported to the police and the insurer.

Exception 9 (a) is deleted to grant theft cover for laptops.

17.3 Basis of Indemnification

17.3.1 Partial loss

If the insured property can be repaired, the insured will be indemnified for all costs and expenses reasonably and necessarily incurred to restore the damaged property to working order.

17.3.2 Total loss

Reinstatement value condition applies; however, it should be noted that the new equipment must be the nearest available in performance and capacity. Reinstatement applies for 7 years from the date of purchase, thereafter, market value applies based on similar second-hand property or a minimum of 40% of current new replacement value of the nearest equivalent property.

17.4 Limit of Indemnity

Indemnity is limited to the sums insured stated in the schedule with the addition of the following:

(a) Architects and other professional fees which is 15% of total claim.

(b) Clearance costs – 15% of total claim

(c) Express delivery and overtime – 50% of the repair or replacement costs

17.5 Clauses and extensions

17.5.1 Power surge or lightning strikes

Electronic equipment is particularly susceptible to power surge and lightning. There is therefore need to protect the equipment from these perils. An excess is applicable in respect of power surge and lightning claims, an additional excess is applicable if surge protection is not installed.

17.5.2 Fire brigade charges

This clause under the Fire section covers the extinguishment of fire. However, the cover under this section relates to the consequences of an insured peril for example fire or flood damage.

17.5.3 Tenants

Ensures that the interests of the insured are not prejudiced by the actions of a tenant.

17.5.4 Hire Purchase/ Finance Agreements

If the insured has items that has been financed by an institution, they will be compensated first, their receipt shall serve as full and final discharge.

17.6 Sub -Section B: Consequential Loss

If the equipment is insured under material damage, the policy can be extended to include the following:

17.6.1 Increased Cost of Working

Cover is in respect of additional expenditure necessarily and reasonably incurred for the sole purpose of avoiding or diminishing the interruption of or interference with normal business. These costs must relate to insured equipment for which a valid claim for damage or loss has been submitted.

A time exclusion of 24 hours applies to all claims except for fire, storm, subsidence, wind or the collapse of buildings.

17.6.2 Reinstatement of Data / Programmes

Cover is in respect of costs and expenses necessarily and reasonably incurred for the reconstitution or recompilation of data and / or programs which is lost as a result of accidental erasure, theft or deliberate wilful or wanton intention. This extension does not cover programming mistakes, faulty inputs and inadvertent cancellation or corruption of data or programs.

17.7 Specific Exceptions to Sub -section B: Consequential loss

1. Fines and damages
2. loss of profit

17.8 Clauses and Extensions

17.8.1 Reinstatement

The insurer will not pay for any aggravation of the interruption as a result of:

(a) the insured being unwilling or not being capable of replacing or repairing damaged property that causes unreasonable delays.

(b) the repair period being extended by any addition, change or improvements having been carried out.

17.8.2 Telkom access lines (if stated in the schedule to be included)

The interruption must follow accidental failure of the lines.

Special conditions applicable to Telkom access lines

(a) The liability is limited to the sum insured by this sub section

(b) There is a 12hour time excess and a maximum period of indemnity of 30days

(c) Cover does not operate in the event of a deliberate act by any Telkom authority.

17.8.3 Remote Jamming

Remote jamming is a new trick which has gained popularity over the last few years. Insurers had to come up with ways to deal with this problem. As per exception 1 theft from an unattended vehicle is excluded unless accompanied by forcible and violent entry/exit, which means losses as result of remote jamming are excluded.

However, if there is proof of remote jamming like CCTV footage showing that an attempt to lock the vehicle was made, then the loss is covered in full. If no evidence, then cover is limited, some insurers limit cover to R15,000.

On the other hand, some insurers offer this cover at an additional premium.

17.9 General Memoranda

Memo 1- Capital Additions and currency Fluctuations

For this memo to operate any new equipment must be similar in nature to the equipment already installed. For example, if the insured equipment is personal computers this memo will not cover the addition of servers.

Memo 2- Prevention of Access

There are two conditions for this memo to be met

(a) that the insured shall not be entitled to indemnity in terms of any other policy or section.

(b) that this section shall not be brought into account for contribution by any other policy or section.

17.10 Special Exception (Sub section A &B)

Cover is not available for loss or damage of any nature arising directly or indirectly out of or connection with the action of any computer virus, trojan or worms or other similar destructive media.

17.11 General extension

Incompatibility cover

This is an optional extension allowing for the replacement of matching parts, incompatible components with modified or replaced systems as well as data that cannot be read due to the replacement of systems or programmes.

17.12 Underwriting considerations

1. Sum insured must reflect replacement value.
2. Software must be insured separately
3. Lightning/ Power surge protection are necessary if not an additional excess is normally applicable.
4. If cover is on a blanket basis, then limit any one item applies (L.AO.I)
5. Full description of equipment is required as well serial numbers

17.13 First Amount payable.

This section is subject to first amount payable, additional excess for unprotected lightning/ power claims applies.

CHAPTER 18: Motor Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the need for and importance of motor insurance

- Describe the various types of vehicles and different types of cover available
- Illustrate an understanding of the scope of cover including the sections of cover available.
- Identify the extensions under the Motor section.

18.0 Introduction

The motor section provides cover for a wide variety of vehicles that is, private motor, light delivery vehicles, busses, commercial trucks, motorcycles and trailers. Motor business forms a major part of all short-term insurance business. It forms on average 60% of the gross premium written for most portfolios.

Motor section provides the following cover:

- (a) Own Damage: Loss or Damage to the insured's vehicle.
- (b) Liability to other parties as a result of the insured vehicle.
- (c) Medical costs.

18.1 Types of cover available

- (a) Comprehensive
- (b) Laid up Fire and Theft – cover for vehicles that are not being driven and are parked.
- (c) Third party fire and Theft – damage to the vehicle is not covered, cover is only available for Theft and third-party liability.
- (d) Third party only – damage to third party only
- (e) Comprehensive cover excluding theft and hijack.
- (f) Third party and Fire only

18.2 Sub - Section A – Own Damage

This section covers loss or damage to the vehicle stated in the policy schedule.

Damage refers to accident damage, theft damage, fire damage, malicious damage and hail damage etc.

18.3 Basis of indemnity

Vehicles are covered either on Market value or Retail value depending on the insurer. The value is obtained from the Auto Dealers guide for example Mead & McGrouther, Auto Trade etc.

Therefore, the limit of liability which is the sum insured will be the maximum amount payable. The sum insured will be either the Retail or Market Value.

If the insured vehicle is subject to a hire purchase or similar agreement the outstanding amount of such agreement will be paid to the hire purchase owner before the insured can be indemnified.

Non-standard extras that is the non-standard equipment supplied by the manufacturers like car radio, these must be specified on the policy schedule.

18.4 Exceptions to Sub section A

- (a) Consequential loss for example loss of use of the insured vehicle
- (b) Depreciation
- (c) Wear and tear
- (d) Mechanical or electrical breakdown, failure and breakage
- (e) Damage to tyres by applying brakes or by road punctures, cuts and bursts.
- (f) Damage to springs/shock absorbers due to an uneven road or other surface, or due to impact because of such unevenness.
- (g) Detention, confiscation or requisition by customs or other officials or authorities.

18.5 Section B: Liability to Third Parties

This section covers liability arising from damage caused by the insured vehicle. It should be noted that the vehicle is never liable, it is the driver of the vehicle who is liable. If someone illegally takes a vehicle without the insured's consent and causes damage it would be unreasonable to hold the insured liability for the damage.

Cover is in respect of:

1. Death or bodily injury excluding:
 - (a) Claims for any employee of the insured arising from and deals with such in the course of such employment. The Workmen's Compensation Commission.
 - (b) Compensation that falls within the scope of any compulsory motor vehicle insurance enactment. The motor section will only supplement if the payment in terms of this legislation is insufficient.
2. Damage to property not belonging to the insured or held in trust by or in the custody or control of the insured.
3. Insurers will also indemnify the insured whilst he is driving any private type motor vehicle not belonging to him and not leased or hired to him under a lease or suspensive sale agreement, provided he has an insured vehicle under the policy.

18.6 Subsection C - Medical Expenses

If an occupant in the specified part of a vehicle, in direct connection with such a vehicle, sustains bodily injury by violent, accidental, external and visible means, the insurer will pay the medical expenses incurred as a result of such injury.

18.7 Extensions

18.7.1 Contingent liability extension (if stated in the schedule to be included)

If an employee, partner or director of the insured is using their own vehicle for the purposes of the employer's business, the employer can be liable for third party damages as a result of an accident.

17.7.2 Passenger liability (if stated in the schedule to be included)

17.7.3 Unauthorised passenger liability (if stated in the schedule to be included)

17.7.4 Parking facilities and movement of third-party vehicles extension (if stated in the schedule to be included)

The insured is indemnified in respect of accidents caused by moving vehicles not owned or hired or leased to the insured, by any person in the employ of the insured provided that the vehicle was being moved. This cover does not apply if a parking fee is charged.

17.7.5 Windscreen extension (if stated in the schedule to be included)

17.7.6 Waiver of subrogation rights

If the insured vehicle is involved in an accident as a result of his own negligence. The insurer will not institute a recovery action against the driver.

18.7.7 Principals

This extension is specific to the building trade. For example, the insured (sub-contractor) must deliver bricks to a building site using his truck, which is insured. While offloading the bricks on the building site, he crashes into a wall. If the builder (principal) is now held liable for the damage, the policy will indemnify the builder (principal).

18.7.8 Cross liabilities

This extension enables joint insureds to claim against each other under the same policy.

18.7.9 Riot and Strike (if stated in schedule to be included)

This extension covers riot and strike outside RSA and Namibia.

18.7.10 Loss of keys (if stated in the schedule to be included)

Cover is for the cost of replacing locks and keys including remote alarm controller as well as reprogramming of any coded alarm system of the insured vehicle.

18.7.11 Fire extinguishing charges

This amount is payable in addition to the sum insured. Cover is respect of costs incurred to extinguish fire if the insured vehicle has caught fire.

18.7.12 Wreckage removal (if stated in the schedule to be included)

This amount is payable in addition to the sum insured. This extension covers the costs incurred in clearing up and removing debris and wreckage of the vehicle.

18.7.13 Credit shortfall (if stated in the schedule to be included)

This extension is optional and subject to additional premium. This extension covers the difference between the retail value of insured vehicle and the outstanding balance on a hire purchase agreement.

18.7.14 Car hire (if stated in the schedule to be included)

This extension is optional and subject to additional premium. Cover is in respect of costs to hire a similar vehicle if the insured vehicle is involved in an accident or stolen.

18.7.15 Waiver of excess (if stated in the schedule to be included)

This extension is subject to additional premium. Excess applicable in the event of a claim is waived.

18.7.16 Roadside assistance

Cover is available for sedans and light delivery vehicles and is subject to additional premium.

Service includes but not limited to:

- Emergency repair work
- Flat battery
- Changing flat tyre
- 10 litres of fuel if vehicle runs out of fuel.

18.8 Memoranda

18.8.1 Premium adjustment clause

This clause is applicable to unspecified vehicles, at the end of each insurance period, the insured must declare the total number of vehicles owned, hired or leased and the premium is adjusted accordingly.

18.8.2 War Clause

In respect of sub section B and C only, general exception 1 is deleted as SASRIA does not apply to third party liabilities or medical expenses. It is then replaced with the war clause.

18.8.3 Description of use

It is important to note the correct use of a vehicle on an insurance policy, as this has a bearing on the premium. The following are the options:

- i. Social, domestic and pleasure
- ii. Business use
- ii. Professional.

Please note that vehicles hired in/ out or vehicles used to carry fee paying passengers, racing trials, rallies, carrying of explosives are excluded.

18.9 Specific Exceptions

Insurers will not be liable for any accident, injury, loss, damage and liability:

(a) While the vehicle is being used other than in accordance with the description of use as stated in the policy schedule.

(b) Incurred outside the Republic of South Africa, Namibia, Botswana, Lesotho, Swaziland, Zimbabwe, Mozambique and Malawi. It should be noted that cover can be arranged for other countries not mentioned above at the insurer's discretion.

(c) incurred while the vehicle is being driven by:

(i) any person with the insured's knowledge under the influence of intoxicating liquor, or drugs unless administered by or prescribed by and taken in accordance with the instructions of a member of the medical profession other than himself.

(ii) Any claim arising from contractual liability unless such liability would have attached to the insured notwithstanding such contractual agreement.

18.10 Underwriting considerations

1. Most insurers do not accept motor only policies, supporting business is required.
2. Area where vehicle will be used that is farm, outside the borders, construction site and the like.
3. Use of vehicle is required
4. Vehicles going outside the borders of RSA a cross border letter must be issued.
5. Type of driver's licence – additional excess is applicable for C1 drivers licence holders driving a private vehicle unless it is required by the driver's occupation.

6. Additional information is required for exotic, classic and vintage vehicles. These requirements will be laid out in the insurer's underwriting guideline.
7. Special attention to accumulation that is vehicles parked at one location at the same time. If the accumulation limit is reached vehicles must be insured under the Fire section in order for the Fire treaty to respond in the event of a claim. This is referred to as the "static risk."
8. Claims experience – most insurers books are motor heavy and also have the highest claims. Therefore, adherence to underwriting principles is required when underwriting the motor section.

18.11 First amount payable

This section is subject to excess. Excesses are normally tiered as follows:

1. Basic excess for private vehicles
2. Basic excess for light delivery vehicles
3. Basic excess for Commercial vehicles
4. Windscreen excess.

Additional / punitive excesses

1. Drivers under the age of 21 or 25
2. C1 Drivers licence holders
3. Theft/ Hijack excess if not fitted with a tracking device
4. Single vehicle excess.

CHAPTER 19: Motor Traders Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain and identify the target market for Motor Traders insurance

- Describe and discuss the two major sections of the Motor Traders policy
- Illustrate and display an understanding of the scope of cover and the available extensions.

19.0 Introduction

Motor Traders policy has been designed to meet the unique business operations of motor dealers, service stations and panel beaters. Vehicles kept at the businesses change from time to time and the values also change. The Motor Traders policy has two sections:

- i. Motor Traders Internal Risks
- ii. Motor Traders External Risks

19.1 Motor Traders Internal Risks

Cover is in respect of the vehicles are on the premises of the insured, cover is for accidental damage. Damage caused by Fire and Allied perils as well as theft are excluded as the cover is provided under Fire and theft respectively.

Internal Risks section has 2 sections:

1. Own damage – cover provided is for damage to insured's vehicles, damage that occurs in and or the premises as per the location stated in the policy schedule say in the show room.
2. Third Party damage – cover provided is legal liability for damage to vehicles belonging to customers and other parties.

Cover can be extended to insure damage caused using car hoists/lifts.

19.2 Motor Traders External Risks

Motor traders external provides cover for Own Damage and liability for insured's as well customers vehicles while they are away from the premises. This section provides cover against the risks of fire, special perils and theft.

Most insurers are now offering cover as Motor Traders policy and do not differentiate between Internal and External Risks.

19.3 Underwriting considerations

1. The intention of this section is not to underwrite big chain retailers as there are specialist insurers.
2. Area – as the risk of hijacking high for motor traders.
3. Unaccompanied demonstration must be declined

4. There is need for motor traders to have vehicles in the open, the risk of hail/ storm damage is high therefore there is need to insist on hail nets.
5. Security at the premises – are the keys locked away, are vehicles locked, access control and the like.
6. The bulk of the premium is calculated based on wages, commission or annual salaries.
7. Extensions are rated separately
8. Insurers have a rating template for calculating premiums for this section.

CHAPTER 20: Umbrella Liability Section

Learning Outcomes

By the end of this chapter, you should be able to:

- Explain the need and purpose of Umbrella liability
- Describe the difference between public liability and Umbrella liability
- Illustrate an understanding of scope of cover offered on this section.

20.0 Introduction:

The world is continuously changing in every way, so is the business environment. Society has increasingly become litigious which has created huge exposure for companies.

Businesses therefore need higher liability limits, insurers therefore introduced Umbrella liability policy to provide additional cover over and above liability policies.

Umbrella Liability offers cover in excess of the underlying liability policies. This section cannot be taken as a stand-alone section/policy. It is only called upon if the underlying policy limit has been exhausted.

This section/ policy is meant for small to medium businesses. Insurers normally stipulates criteria in order to qualify. Limit of liability offered is R20million.

Example

Public liability	R5,000,000
Employers liability	R5,000,000
Motor Third Party liability	R2,500,000
Property Owners liability	R2,500,000

A motor third party claim of R10,000,000 is submitted. The Motor Third Party liability policy will respond first then the Umbrella liability policy will be called upon to pay the balance of R7,500,000.

20.1 What is covered?

Damages, costs, fees and expenses which the insured has shall become legally liable to pay consequent to injury, damages, malice or negligent advice which occurred in the course of or in connection with the business within the territorial limits.

CHAPTER 21: Machinery Breakdown Section

Learning Outcomes

By the end of the chapter, you should be able to:

- Explain the client need for Machinery Breakdown cover as well as identify target market
- Describe the three basis of indemnity

- Illustrate an understanding of the covered offered under Machinery breakdown as well as deterioration of stock and loss of profits.

21.0 Introduction

Cover is for sudden and unforeseen mechanical or electrical breakdown of machines. Cover is available to different types of machines say boilers, air conditioners, refrigerators and many others.

Cover is offered by Specialist Engineering insurers; Limited cover is offered on the commercial policy.

21.1 Defined Events

Any unforeseen and sudden physical damage to the machinery described in the Schedule from any cause whilst it is:

1. at work or at rest;
2. being dismantled for the purpose of cleaning, inspection and overhaul or removal to another position or in the course of these operations themselves or subsequent re-erection within the Insured's premises.

21.2 Basis of Indemnity

21.2.1 New replacement value

Sum insured is the new replacement value including freight dues, customs duties and erection costs. If the sum insured at the time of loss is less than the new replacement value, then average will be applied.

21.2.2 Partial damage

Where the machinery can be replaced, the insurer will pay reasonable costs of restoring the machine/ equipment to working order based on customary rates of wages, normal freight, erection costs and customs duties.

21.2.3 Total loss

If the cost of repairs equals or exceeds the actual value of the machinery/ equipment immediately before the loss, this shall be regarded as a total loss. The insurer will pay the actual value of the machinery immediately before the loss.

21.3 Extensions

21.3.1 Overtime, Night work, work on public holidays and express freight

Covers extra costs/ charges for overtime, night work, work on public holidays and express freight.

21.3.2 Capital Additions

Cover is extended to include additional machinery of a like nature to that specified in the schedule as the insured machinery.

21.4 Specific exceptions

21.4.1 First amount payable.

21.4.2 Loss or damage covered under the fire section.

21.4.3 Loss or damage for which a supplier, contractor or repairer is responsible (by law or under contract).

21.4.4 Damage resulting from misapplication, experimentation, overhauls or tests of equipment requiring the imposition of abnormal conditions.

21.4.5 Loss or damage as a direct consequence of the continual influence of operation.

21.4.6 Loss or damage caused directly or indirectly by faults or defects of which the insured was aware of at the time of commencement of this section.

21.5 Machinery Breakdown Business interruption

The same concept of business interruption as was discussed earlier applies. This section covers the financial loss that business suffer as a result of machinery breakdown and business activities are interrupted.

21.5.1 Basis of settlement

1. Gross profit the insured has the option of choosing additions or difference basis.
2. Revenue cover is in respect of reduction of turnover or for increase in cost of working.

21.5.2 Exceptions

1. Loss or damage covered under the fire section.
2. Supplier, contractor, repairer.
3. Faults or defects which the insured is aware of.
4. Wear and tear, cavitation, erosion, corrosion, rust or boiler scale.
5. The misapplication of tools or from experiment, overhauls or tests requiring the imposition of abnormal conditions.
6. Mechanical installations.

7. Restrictions on reconstruction or operation imposed by any public authority.

21.6 Machinery breakdown deterioration of stock

This section covers damage to goods stored in specified cold storage spaces, which occurs as a result of a change in temperature caused by a breakdown of the refrigeration equipment or accidental damage to it. Cover is extended to include failure in the public electricity supply, as well as a result of the escape of refrigerant gases.

Cover is designed for businesses that keep large amounts of stock stored in cold storages or refrigerators like retailers, pharmaceuticals and wholesalers.

21.7 Exceptions

1. First amount payable.
2. Damage to the insured products and/or cold room(s) caused by bruising, rodents, pests or natural deterioration, disease or vice.
3. Damage to insured products not contained in insured cold room(s) at the time of such damage.
4. Consequential loss, damage or liability arising out of the damage to the insured products and/or cold room(s).

21.8 Underwriting considerations

Cover offered on this section is specialised and better suited for the engineering space. However, it is offered on accommodation basis, therefore care should be taken not underwrite complex equipment.

This section provides cover if machinery breakdown, fire perils are excluded. If fire cover is required, then the machinery must be insured under the fire section as well.

1. The type of business or activity like a pharmacist with medication which are supposed to kept at certain temperatures.
2. The type of machines, that is the availability of replacement machines, are servicing agents readily available and the like.
3. Sum insured must represent replacement value.
4. Each item must be insured separately

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