CLASS OF BUSINESS TRAINING

SHORT TERM INSURANCE: PERSONAL LINES

2021

Class One

NKWALI TRAINING CONSULTANTS (PTY) LTD

FP&M Accredited Provider

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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 **before** 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 a key individual **before** 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 educational 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 before 1 April 2018 are considered to have completed the CoB training given their experience and are therefore exempt from CoB training unless they add new products to their licence.

Glossary of terms

Term	Definition
Accident and Health Insurance	A class or type of insurance that pays benefits for losses caused by disease, accidental injury, accidental death, and related health expenses.
Accidental Damage	This form of insurance cover is for an unintentional one-off incident that causes damage to your property or its contents. For example, accidentally spilling red wine over your new white carpet. It doesn't cover general wear and tear, or damage that occurs over a long time.
Assessor	Also known as a loss adjuster. When you lodge your **claim**, the assessor who is acting for the insurer helps approve the claim by checking the details (investigating) to see if it's valid and meets the terms and conditions of your **policy**. An adjuster can be an employee of the insurer (staff adjuster) or an independent adjustor.
Broker	An insurance intermediary who/that represents the insured rather than the insurer. Since they are not the legal representatives of insurers, brokers, unlike independent agents, often do not have the right to act on behalf of insurers, such as to bind coverage.
Claim	Used about insurance, a claim may be a demand by an individual to recover, under a policy of insurance, for loss that they suffer that is covered by a policy.
Coverage	Coverage is what's included in your insurance **policy**. In property insurance, coverage includes the risks that you are insured against, the properties covered, the locations covered, the people insured, and the limits of compensation.
Defined Events	Also known as insured events and refers to a policy that specifically lists the events that you are covered for. E.g. Fire, storm. Anything not listed is not covered under this type of policy.

Disability	A condition that incapacitates a person in some way so that he or she cannot carry on normal pursuits. A disability may be total, partial, permanent, or temporary, or a combination of these
Excess	Excess (also called a deductible) is the amount of any loss or damage that you must pay before your insurance **policy** starts to kick in. In effect, you are accepting a small part of the financial **risk** yourself.
Fraud	Deception or artifice used to cheat or intentionally mislead. This is closely related to misrepresentation and concealment. Proof of fraudulent acts by an insured in procuring insurance may lead to a denial of coverage and voiding of the policy by the insurer.
Indemnity	Compensation to a party for a loss or damage that has already occurred, or to guarantee through a contractual clause to repay another party for loss or damage that might occur in the future.
Insurable Interest	Interest by the insured person in the value of the subject of insurance, including any legal or financial relationship. Insurable interest usually results from property rights, contract rights, and potential legal liability.
Insurance	A contractual relationship that exists when one party (the insurer) for a consideration (the premium) agrees to reimburse another party (the insured) for loss to a specified subject (the risk) caused by designated contingencies (hazards or perils).
Insurer	The insurance company that undertakes to indemnify for losses and perform other insurance-related operations.
Liability	Any legally enforceable obligation. Within the context of insurance, the obligation to pay a monetary award for injury or damage caused by one's negligent or statutorily prohibited action.
Loss	**(1)** The basis of a claim for damages under the terms of a policy. **(2)** Loss of assets resulting from a pure risk
Market Value	The price that would have to be paid to purchase an asset in its particular market.

Negligence	Failure to use a degree of care considered reasonable under a given set of circumstances. Acts of either omission or commission, or both, may constitute negligence.
Occurrence	An accident, including continuous or repeated exposure to substantially the same general harmful conditions.
Over Insurance	Insurance in an amount that is more than the insured object's fair or reasonable value.
Partial Disability	Also called temporary total disablement. This is when an insured suffers an injury and is unable to perform normal duties at full physical capacity
Peril	Cause of loss—for example, fire, windstorm, collision.
Permanent Total Disability	Disability in which the injured employee is incapable of ever working again at any employment. Under most statutes, the employee will receive weekly wages for life.
Policy	A written contract of insurance between the insurer and the policyholder.
Policy Holder	the person(s) protected under an insurance contract
Policy Lapse	Termination of an insurance policy due to the insured's failure to pay the premium.
Policy Schedule	A formal document providing evidence that an insurance policy has been issued by an insurer containing the details of the type of insurance cover, its value, any exclusion or excess limits, the premium, and the period of the insurance cover (how long it is in force).
Premium	The amount of money an insurer charges to provide the coverage described in the policy.
Reinsurance	A transaction in which one party, the "reinsurer," in consideration of a premium paid to it, agrees to indemnify another party, the "reinsured," for part or all of the liability assumed by the reinsured under a policy of insurance that it has issued.

Renewal	Renewal is when you agree to continue your existing insurance policy for a further period. Usually, you will do this each year when your insurance company sends you a renewal notice. You should review your renewal notice to check if anything has changed and considered if you need to alter your coverage or list specific items.
Replacement cost	Replacement cost is the amount you need to replace damaged, stolen, or lost property by buying new items.
Risk	**(1)** Uncertainty arising from the possible occurrence of given events. **(2)** The insured or the property to which an insurance policy relates.
Risk Management	The practice of identifying and analysing loss exposures and taking steps to minimize the financial impact of the risks they impose.
Settlement	This is what you receive from your **insurer** when your **claim** is agreed upon and processed. You may have the damage to your property repaired, or the insurer may give you the money.
Sum Insured	The sum insured is the maximum amount that your insurer will pay for a claim in a particular policy.
Total Loss	A total loss occurs when an asset (such as your home) is so badly damaged that it is beyond economic repair. Depending on the **terms** of the insurance policy, a total loss will usually attract the maximum sum-insured as a settlement.
Third-Party	Someone other than the insured and the insurer. In liability insurance, the insurer provides defence against claims or suits brought by third parties—hence the term "third-party insurance."
Underwriting	The process of determining whether to accept a risk and, if so, what amount of insurance the company will write on the acceptable risk, and at what rate.

Underinsurance	A situation resulting from a failure to carry enough coverage on the value of a property, especially when there are coinsurance implications.

INTRODUCTION

How is a class of business training different from other forms of training?

Unlike product training, class of business training includes training on product features including the typical fee structures and the suitability of different products or features for different types of clients. Class of business training also looks at the impact of current events and how they impact on these products. Current events are but not limited to, socio-economic factors, socio-political factors, and legislation changes.

Insurance is simply the transfer of risk. A person transfers the risk, of loss, to an insurer and pays a premium to have that risk insured.

The Short-Term Insurance Act and classes of insurance business

A short-term policy means an engineering policy, guarantee policy, liability policy, miscellaneous policy, motor policy, accident and health policy, property policy or transportation policy or a contract comprising a combination of any of those policies; and includes a contract whereby any such contract is renewed or varied.

Personal lines insurance refers to the class of coverage that protects families/ households or individuals against financial losses. The focus of personal lines is on protecting the financial interests of an individual or family, rather than a corporate or business entity. There are many different types of protection offered within personal lines. These types of insurance products lower the personal financial risk if an insurable event of loss occurs. The high cost associated with just one catastrophic event could place individuals in serious financial hardship or debt. Whether it is something as common as a car accident or something less likely, like a flood or tornado, the unexpected costs can accumulate quickly.

The Short-Term Insurance Act classifies short term insurance business into the following classes:

Short-term personal lines subclasses	Short term-commercial lines subclasses
a) Accident and health policy	a) Accident and health policy
b) Liability policy	b) Liability policy
c) Miscellaneous policy	c) Miscellaneous policy
d) Motor policy	d) Motor policy
e) Property policy	e) Property policy
f) Transportation policy	f) Transportation policy

g) Short term reinsurance policy	g) Short term reinsurance policy
	h) Guarantee policy
	i) Engineering policy

The main difference between short-term and long-term insurance is how long a contract will last. Short-term insurance is insurance that can be purchased for a short period, usually for one year or less, whereas long-term insurance is purchased for a longer period, usually more than one year.

Short-term insurance is a risk cover that you take out on your possessions. It protects you against unexpected loss or damage like severe natural disasters, accidents, or theft, whereas long-term insurance provides an income when one can no longer earn an income like when they retire or are permanently disabled or pass away.
For this course, we are focussing on the Short-Term Personal Lines classes of insurance.

Policy wordings, schedules and endorsements

a) Policy schedule
The policy schedule is also known as a schedule of insurance. It is the part of the insurance contract that identifies the policyholder and details the property and persons covered, the amount of coverage, the exclusions, the deductibles, and the payment mode and schedule.

An insurance contract is often long and there might be terms and turns of phrases that will confuse those who are not insurance professionals.

So, when an insurance company provides the contract, the one insured should read it thoroughly particularly the details in the policy schedule. If he or she finds something incomprehensible, he or she must ask an insurance professional.

b) Policy wording
Policy wording is the terms and conditions and definitions of insurance coverage as they are written down in the insurance policy. Any ambiguity in an insurer's proposal form or policy wording will be construed against the insurer. The insured is expected to adhere to the terms and conditions of the policy as spelled out in the policy wording., failure of which may result in cancellation of policy or repudiation of a claim.

c) Endorsements
An insurance endorsement is an amendment or addition to an existing insurance contract that changes the terms or scope of the original policy. Endorsements may also be referred to

as riders. An insurance endorsement may be used to add, delete, exclude or otherwise alter coverage.

An insurance endorsement may be issued mid-term, at the time of purchase, or renewal. The insurance endorsement is a legally binding amendment to the insurance contract. The purpose of an endorsement is a policy change. Insurance companies create endorsements to offer options to insureds to add coverage or increase coverage limits, but insurers may also issue special endorsements to limit or restrict coverage.

GENERAL CONDITIONS, EXCEPTIONS, AND PROVISIONS

Introduction

Aspects common to all sections of the Personal Policy are grouped, to avoid repetition. The individual sections then have their own "defined events" against which cover is given, and their specific extensions and exceptions.

1.General Exceptions

Grouping the exceptions and conditions applicable to most sections of the policy save repetition, but you must remember these when studying the rest of the policy wording in the workplace.

a) The Riot

This refers to loss or damage to property related to or caused by any of a long list of events, mainly related to riot, strike, public disorder, and warlike operations of any kind. War is a national concern, where the Government becomes involved, but for other kinds of disorder, political or non-political, the cover is usually available from SASRIA (South Africa) or NASRIA (Namibia), and in other ways.

b) War Damage

The policy also excludes loss or damage caused directly or indirectly by any occurrence for which a fund has been established in terms of the South African War Damage and Compensation Act, or similar Acts in other territories.

c)The Nuclear Exclusion

The policy does not cover any loss of or destruction or damage to property, any consequential loss, or any legal liability arising from radiation contamination by nuclear fuel, nuclear waste from the combustion of nuclear fuel, or nuclear weapons material. This is because no one insurer could carry such a large risk.

Remember that other sources of radiation, such as radioisotopes, particle accelerators, X-ray apparatus, and lasers, are in use in industry, medicine, and research. The exclusion does not apply to these. Such risks must be carefully considered but can be underwritten in the ordinary material damage and liability policies.

d)Terrorism

The policy does not cover loss of or, damage to property or expense of whatsoever nature directly or indirectly caused by, arising out of or in connection with any act of terrorism regardless of any other cause or event contributing concurrently or in any other sequence to the loss, damage or expense.

e) Computer loss

The policy does not cover losses (including liability) directly or indirectly caused by the incapacity or failure of any computer.
In this case, a computer would mean any computer, data processing equipment, microchip, an integrated circuit or similar device in computer or non-computer equipment or any computer software, tools, operating system or any computer hardware or peripherals and the information or data electronically or otherwise stored in or on any of the above, whether the property of the Insured or not.

f) Consequential Loss

This policy does not cover any consequential loss of any description (other *than as specifically provided***.)**

g) Asbestos

This policy does not cover any loss, damage caused the hazardous nature of asbestos.

h) Insurable risk

Not every risk is insurable. While insurance is designed to help protect against the many risks of loss in life, it has never been intended to cover everything.
Insurance risks are those risks that an insurance company will protect an insured against because it is possible to calculate how likely it is to happen, how much damage it will cause, etc. Insurance companies want to make a profit, so there are only certain risks known as insurable risks that they insure. An insurer will deem a risk insurable only if it can charge a premium that covers possible claims and operating expenses while making a profit.

Risk is the uncertainty arising from the possible occurrence of an event(s) and the potential for injury or damage to persons or property to which an insurance policy relates.

i) Pure risk and Speculative risk

For insurance purposes, risks are usually referred to as either pure or speculative. Pure risks are risks that have no possibility of a positive outcome - something bad will happen or nothing at all will occur. The most common examples are key property damage risks, such as floods, fires, earthquakes, and hurricanes. Litigation is the most common example of pure risk in liability. Speculative risk has a chance of loss, profit, or a possibility that nothing happens. Gambling and investments are the most typical examples of speculative risk. Insurance companies typically cover pure risks and do not consider speculative risks to be insurable. Therefore, pure risks are insurable whereas speculative risks are uninsurable.

2.General Conditions

Common General Policy conditions include but are not limited to the following:

a) Misrepresentation, misdescription, and non-disclosure of material particulars render the particular section or item voidable at the insurer's discretion.

b)Other insurance - the policy will pay only its rateable share of the loss, in other words, the insured himself must also claim from each of the other policies, (rather than a claim from only one, and then leave the insurers to sort out contribution between themselves).

c)Cancellation – it is immediately if the intention to cancel is from the insured however the insurance company should give 30 days' notice to the insured. The cancellation of the policy is subject to a pro-rata refund.

d)Principle of Indemnity

he principle of indemnity is a defining aspect of insurance, and it states that an insurance policy shall not provide compensation to the policyholder that exceeds their economic loss. This limits the benefit to an amount that restores the policyholder to the same financial state they were in before the loss.

This basic tenet ensures the policyholder receives an amount in benefits equivalent to their actual losses, so they do not make a profit from it. Because of this, it is linked to another central insurance principle, that of insurable interest, as the policyholder cannot receive a sum that goes beyond their insurable interest.

e) Continuation of cover - if a premium is paid by debit order, the insurance automatically lapses if the debit order is not met unless it can be shown that this was due to an error by the bank. The condition makes provision for monthly, quarterly, half-yearly, or annual premium payments.

f) Sum insured

Sum insured is the amount of money that an insurance company is obligated to cover in the event of a covered loss. The sum insured amount is dependent upon the premium price that is being paid for the insurance coverage.

g) Premium adjustment - annual adjustment of premium on some sections of the policy, based on the insured's declarations.

h) Prevention of loss - The insured cannot be expected to prevent all losses (there would be no point in having the insurance), but the precautions and action taken must be reasonable in the circumstances.

i)Claims

An insurance claim is a formal request by a policyholder to an insurance company for coverage or compensation for a covered loss or policy event. The insurance company validates the claim and once approved, issues payment to the insured or an approved interested party on behalf of the insured.

As soon as reasonably possible, the insured must give notice of any event that may result in a claim. This is especially important in connection with liability risks, or where the insurer might want to insist on extra precautions.

If a claim then results, the insured must, as soon as possible:

- submit full details in writing
- provide the required proof and documentation, and immediately forward any third
- party claim or summons to the insurer to deal with
- In case of theft, notify the police, and cooperate in trying to recover the stolen property.
- Insurers cannot allow an unlimited time between the event, and a claim being made unless they agree specifically, the maximum allowed is 24 months. This limit does not apply to fidelity, business interruption, stated benefits, or group personal accident or personal accident (assault) extension under the money section or where there is pending legal action, but some sections of the policy have their special requirements.
- If the claim is rejected, the insured has only six months, from the date of repudiation, to start legal action against the insurer.
- Insured, if asked to do so by the insurer, has to assist the insurer in the recovery of lost or stolen property. If he does not do so, he must refund the claim settlement.

j) Company's rights after an event - Insured cannot abandon property to the insurer, but the insurer can take possession of the damaged property. They must reasonably deal with the property; otherwise, they can be liable for any further damage that results from their actions.

k) Subrogation - Insurer can take over the rights of the insured immediately and commence recovery against third parties. (In common law, they could do this only after payment of the insured’s claim). Subrogation proceedings will be at the insurer’s expense, but the insured must cooperate.

l) Liability to third parties - This might exceed the limit under the policy, so the insurer has the option of paying the insured the limit of indemnity and withdrawing from the claim.

m) Fraudulent claims - Any fraudulent claim is forfeited. This includes those insured who, for example, intentionally set fire to their property, or arrange to have it set fire to or stolen. Another example could be a Company had a burglary and when making the list of the stolen items they put other equipment which they never owned.

n) Deliberate acts or wilful acts are also excluded because they viewed as if they are not accidental

o) Reinstatement after a loss - Insured’s, and even some brokers, do not always understand that payment of a loss generally reduces the available cover, for example, if contents are insured for R60 000 and R20 000 is then lost, only R40 000 is left for later claims during the same period of insurance. If the replacement property is bought, the original sum needs to be reinstated. This condition makes this plain and provides for reinstatement to take place automatically so that the client is not left with insufficient cover. Normally, an additional premium is due, but insurers often reinstate small losses free of charge.

p) Breach of conditions - A breach of conditions affects only the particular section, not the policy as a whole for example if there is a breach of the condition under the Fire section the breach will not have an impact of the Glass Section of the policy.

q) No rights to other persons - Emphasises that the contract of insurance is between the insurer and the insured hence NO rights are given to any third parties. In the policy wording, it is stated as follows.

Quote:

“Unless otherwise provided, nothing in this policy shall give any rights to any person other than the insured. Any extension providing indemnity to any person other than the insured shall not give any rights of claim to such person, the intention being that the insured shall claim on behalf of such person. The receipt of the insured shall in every case be a full discharge to the company”

r) Collective insurances - Some large policies are issued by a panel of insurers, each of them named in the policy together with their percentage. One insurer takes responsibility for the issue and administration of the policy and is called the "leading insurer". The lead insurer will take the position of the insured when it is required during the legal action on behalf of the insured and other co-insurers. Usually, in practice the lead insurer will deal with all the claims under R100 000 and then recover from the co-insurers afterward.

Example:

Insurer AX – Cover 60%

Insurer BY – Cover 25%

Insurer CZ - Cover 15%

In this example insurer AX is the lead insurer and BY and CZ become co-participants or co-insurers.

3. General Provisions

a) First amount payable

This is also called excess. An excess is the first amount payable by the insured in the event of a loss and is the uninsured portion of the loss, so when an insured submits a claim, they will have to pay an excess. In a motor policy, the excess usually has to be paid to the garage fixing the insured car once it is repaired before it can be driven away.

When a claimant has to pay an excess for damages arising from an accident, it is irrelevant who was to blame for the accident, this serves to deter customers from submitting minor claims and/or fraudulent claims and keeping premiums down.

Excess is usually expressed as a percentage of the loss or as a flat figure.

b) Liability under more than one section - This is to guard against the accumulation of cover under the different than liability sections but is not meant to penalise an insured who may have insured the same risk under two policy sections, e.g. rent under Fire as well as under Business Interruption.

c) Meaning of words - Policy wordings, schedules, and endorsements be read together with one another, and any specific meaning should be applied throughout the contract. (When drafting policy wording, those who draw up policies have to take care to ensure that this does not result in words meaning what they did not intend them to mean).

d) Premium payment - Premium is payable on or before the inception date or renewal date. Insurers do not have to accept late payments; this is at their choice. The policy wording

(____________ policy wording) states that the policy is conditional upon the prior payment of premium by or on behalf of the insured. The premium must be paid first and only then can the client claim for losses covered by the policy. This is to prevent an insured from paying premium after he experienced the loss.

e) Holding covered - To form a valid contract, the terms including the premium must be agreed upon. If insurers are holding covered, they will not reject a claim merely because the premium has not yet been agreed upon.

f) Schedule sums insured blank - This makes it very clear that if the sum insured/limit of indemnity is left blank or shown as 'nil' or 'not applicable', this means there is no cover, NOT "no limit to the cover".

g) Security firms - This does not mean that the policy now covers the security firm, but that the insured's rights under the policy are not prejudiced by entering into the contract required by the security service, and if the contract prevents the insured from claiming against the security firm for loss or damage caused by its employees, the insurers will, likewise, not exercise their rights of recourse against this firm.

h) Renewals – Prior to the expiry of the insurance policy, the insurer must send a renewal notice to the insured, with the same or different terms to the current policy. The insured must either agree or decline the new times and subsequently renews the policy or move their business elsewhere.

CHAPTER 1: ACCIDENT AND HEALTH POLICY

Learning Outcomes

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

- Identify and explain the different types of cover in an accident and health policy and outline their key features and characteristics.
- Discuss the typical fee structures, charges and other costs associated with an accident and health policy
- Explain the suitability of an accident and health policy for different types of clients.

Introduction

Accidents happen and they tend to happen quickly and unexpectedly, and the impact of an injury is usually long term. One needs a policy that covers him/ her, and their family covered if an accident affects their health permanently.

Even though one may be able to go on with their life, they need peace of mind so that they can pay their medical bills and any other extra expenses. The accident and health policy covers expenses if one is injured in an accident. It also provides cover if one are injured and admitted to hospital, or you are disabled or die as the result of an accident. There will be a sum specified in the policy which is the maximum amount the insurers pay for any claim.

1.1 The range of financial products in an accident and health policy and their characteristics

What are accidents and health policies?

According to the Short-Term Insurance Act:

"Accident and health policy" mean a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if a disability event; health event; or death event, contemplated in the contract as a risk event occurs.

This is a class or type of insurance that pays benefits for losses caused by disease, accidental injury, accidental death, and related health expenses. In essence, it covers the costs of injuries. This could include death, permanent disability, temporary total, or partial disabilities, plus any associated medical expenses.

a) The definition of an accident

An accident is an unexpected and unintentional event, caused by violent, external, and visible means, commonly leading to injury resulting in hospitalisation, disablement or death within 12 months of the event.

b) The definition of total permanent disablement

This is a disablement that entirely prevents the insured from gaining employment of any kind, and that is likely to last for the remainder of the insured's life. This condition must be substantiated by medical evidence.

Examples of accident and health policies are:

- Personal Accident Insurance
- Travel insurance.

1.1.1 Personal accident insurance

This provides compensation to the insured, their spouse, and the insured's children for accidental injuries, disability, or death caused by violent, accidental, external, and visible events. An accident is an unexpected and unintentional event, caused by violent, external, and visible means, commonly leading to injury and/or resulting in hospitalisation, disablement or death within 12 months of the event.

Personal Accident policies cover the following:

1) Death to the life insured as stated in the policy schedule. This mean that if the insured person dies as a direct result of an accident, the beneficiaries or the estate of the insured will be paid out the selected limit of compensation in terms of the death benefit.
2) Permanent disablement benefit will be paid to the insured according to the Table of Benefits of insurer. Permanently disabled would mean that the insured is prevented from engaging in or giving attention to his/her usual occupation and any other occupation to which he/she is suited by education, training or background? Permanent disability also means loss or loss of use of body parts as per the Table of Benefits below.
3) Temporary total disability: this is disablement that totally prevents the insured from giving attention or performing his usual business or occupation for a period of time usually not more than 104 weeks (2 years).

1.1.2 Travel insurance

Travel insurance covers unforeseen medical expenses lost or stolen luggage, unexpected trip cancellations. Some insurers also include death and disability cover and well as personal liability cover. Cover is usually given for both local and international travel.

a) Key features of travel insurance

Travel insurance is a safety measure for all travellers and provides peace of mind with any sort of uneventful circumstances and gives ample cover against emergencies/unforeseen situations. It is very important to understand some key features of travel insurance.

Travel medical covers for in/outpatient hospitalisation along with daily allowance.

- Personal accident covers in case of permanent disability/death during the time of travel.
- Coverage for issues related to personal possession or baggage loss during the course of the travel.
- Coverage for loss of passports and other important documents.
- Coverage for expenses related to trip delays and trip cancellations.

b) Benefits of Travel Insurance

The major issues faced by travellers during travel include lost passports, loss of important documents, stolen bags and personal possessions, trip delays and cancelled flights. Such mishaps can derail perfectly laid out plans instantly. So, to avoid such inevitable events ruin the entire travel plans, travel insurance is critically needed when emergencies strike, whether in native country or in unknown foreign lands.

Proper travel insurance takes care of compensation to return home or cover untimely expenses as and when they occur during the course of the travel.

Typical benefits on a travel insurance policy include the following:

- Medical and related expenses and assistance services
- Evacuation
- Cancellation of tickets
- Curtailment
- Personal liability
- Personal accident
- Lost or stolen luggage
- Travel delay
- Legal assistance.

c) Exclusions

Common travel insurance exclusions include glasses, hearing aids, dental bridges, tickets, passports, keys, cash, and cell phones.

1.2 Main types of cover

Generally, accident and health policies cover life-related events which include:

- **Death –** The amount payable upon the death of the insured person is stated in the schedule
- **Permanent Disability** - The percentage of the sum insured as stated in the schedule and calculated as set out
- **Temporary Total Disability -** necessarily preventing you from engaging in or giving attention to your usual business or occupation. The amount stated in the schedule for each week of such total disablement, up to a maximum of 104 weeks
- **Medical expenses** - Medical, surgical, dental, hospital, emergency rescue, and transportation expenses including artificial aids and prostheses incurred as a result of bodily injury as defined above. The amount as stated in the schedule

Accident and health policies do not attract excesses like all other classes of business.

1.3 The general characteristics, terms, and features of financial products in an accident and health policy

a) Hospitalisation

If the insured is hospitalised because of an accident, cover will be provided from the first day of hospital admission, up to a maximum period which can be in weeks. The claim will only be paid once the hospital records have been provided and authorised for payment. If compensation for disablement or death becomes payable, there will be no compensation under this benefit.

The benefit will only be payable to the policyholder and not to the hospital or provider of the health services. Please note that this is not a medical scheme, and the cover is not the same as that of a medical scheme. This policy is not a substitute for a medical scheme membership.

b) Death cover

Should the insured die because of an accident, compensation is paid to his/her nominated beneficiary/ies or estate to the level of cover chosen. Compensation for total permanent disablement or death will be paid in one lump sum. Payment is usually tax-free.

c) Total Permanent Disablement cover

Should the insured suffer disablement as a result of an accident, compensation will be given to him/her according to the scale of benefits and level of cover chosen.

d) What the Personal Accident policy does not cover (Exclusions)

- Self-inflicted injury.
- Injury due to mental disability.

- Hospitalisation, disablement or death as a result of a hazardous pursuit.
- Hospitalisation, disablement or death as a result of alcohol or drug abuse.
- Non-accident-related hospitalisation.
- Death and disability as a result of an accident or injury that occurred prior to the commencement of this policy.
- Suicide.
- Death and injury as a result of natural causes.

e) The insured's obligations

If the insured does not fulfil any of the following obligations, their cover may be cancelled. Insured obligations are as follows:

- Incorrect information or non-disclosure, or misrepresentation of information, may influence the insurer on any claims arising from the contract of insurance and may influence the insurer's decision to provide the benefits in terms of the policy, or to accept or terminate the policy.
- Insured must inform the insurer if any of the policy details or declarations are incorrect, or if any of these details or declarations change.

f) Accidental exposure to HIV

There are many ways in which accidental exposure can occur, including the following:

- Sexual transmission through assault and/or molestation.
- Blood transfusions and accidental contact with needles.
- Direct contact with bodily fluids of an infected person through incidents such as vehicle accidents.
- Occupational exposure, e.g. in the health-care industry.
- Mother-to-child transmission during pregnancy, at birth and through breastfeeding.

g) What to do in the event of accidental exposure

In the unfortunate event of accidental exposure, these are the steps that must be taken to ensure the insured's safety:

1. Immediately call the insurer
2. The insurer will direct the insured to the nearest doctor, clinic, or hospital, where appropriate treatment will be given.
3. Blood tests will be done to determine the insured's HIV status.

h) If the patient tests HIV-negative

- Anti-retroviral treatment will be provided.
- Prophylactic therapy will be provided to prevent possible sexually transmitted infections (STIs).

- The ‘morning-after pill’ will be given in the event of sexual assault.
- He/she will be monitored over a three-month period and retested.
- If his/her status remains negative, the file will be closed.

i) If the patient tests HIV-positive

- STI treatment and the ‘morning-after pill’ will be provided.
- The patient will be given the opportunity to join an HIV/Aids Disease Management Programme (treatment costs will be for his/her own account or medical aid).
- Lifelong telephonic advice and counselling will be offered to the patient.

j) Treatment benefits

- Access to a care centre for HIV/Aids information, advice, and counselling.
- Blood tests and consultations after potential exposure cases.
- Anti-retroviral therapy to prevent infection.
- The ‘morning-after pill’ to prevent pregnancy.
- STI preventative medication (prophylaxis).

k) Sexual assault

If sexually assaulted, the insured has access to the following:

- A counselling benefit for the patient and immediate family.
- A security benefit of **a specified amount** for reasonable security improvements after a sexual assault-related incident.

l) How to protect oneself:

- Always use a condom.
- Know about your partner’s lifestyle.
- Avoid contact with blood or other bodily fluids, syringes, or needles.

1.3 The typical fee structures, charges and other costs associated with insurance products in an accident and health policy

Like any other insurance products, premiums are determined through the assessment of risk factors surrounding the insured’s risk profile.

Travel insurance basic premium determinants

- Whether one is travelling internationally for business or leisure?
- The insured’s age
- Whether one has pre-existing conditions
- Where the insured is travelling to
- Duration of their stay
- The number of people travelling.

Personal accident insurance *premium* determinants:

The amount of premium charged is determined by taking several different matters into account. The premium varies depending on the information provided by the insured to the insurer at the application of insurance. The higher the risk is, the higher the premium will be.

The insurer decides what factors increase their risk and how they should impact on the premium. Each insurer can do this differently.

In this product the factors including the following are taken into consideration:

- Medical history
- Habits / lifestyle
    - drinking
    - hobbies
    - smoking.
- Occupation- some occupations are hazardous by nature.
- Type of cover taken (e.g. Death only, Personal Accident).
- Benefit Limits that were chosen.
- Any additional excess you nominate to pay or wait above our basic excess.

Scenario:

John and Tom are both adult males in their early forties. John is a truck driver; he drinks beer and is regularly on the road. He was diagnosed with sugar diabetes 2 years ago. On the other hand, is 35 years old and works as an insurance underwriter. He does not smoke and has no known medical underlying conditions.

When John and Tom seek for accident and health insurance cover, Tom is likely to be charged a lower premium, based on the information given as he is considered less risky compared to John who is high risk.

1.4 The suitability of an accident and health policy for different types of clients

Accident and health insurance are meant for any individuals and families who can afford the insurance. It provides coverage in case of sickness, accidental injury, or accidental death.

CHAPTER 2: LIABILITY POLICY

Learning Outcomes

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

- The range of financial products in a liability policy & their characteristic
- The typical fee structures, charges and other costs associated with insurance products in a liability policy
- The suitability of a liability policy for different types of clients.

Introduction

While it is important to have comprehensive cover for one's possessions such as house, car, and other belongings, this alone is not sufficient. One must consider what would happen if someone were to lay a liability claim against them. Without personal liability and legal insurance, one could find themself in a financially crippling situation.

Personal liability provides insurance cover if one is legally responsible for the accidental death or illness of or injury to someone who is not a member of member of the insured's household. This cover includes legal responsibility for accidental physical loss of or damage to someone else's property or belongings.

Personal liability claims could include medical bills, legal fees and more if a guest is injured on your property, as well as coverage for accidental damage that you are legally responsible for on someone else's property.

What does personal liability insurance cover?

Under your basic homeowners' insurance or renters' insurance policy, personal liability insurance may protect you under the following circumstances, up to your policy limits:

- Lawsuits you may face if an accident occurs.
- Bodily injury to an individual.

2.1 The range of financial products in a liability policy and their characteristics

What is a liability policy?

"liability policy" means a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the incurring of a liability, otherwise than as part of a policy relating to a risk more specifically contemplated in another definition in this section, occurs.

Liability is a responsibility or obligation that a party has or owes to another. In the context insurance, parties can be held "liable" for things such as injuries occurring to others, malpractice, negligence, and several other things. Liability insurance exists to protect people from losses associated with liabilities that can occur as a result of lawsuits.

Individuals and families often have vehicles, buildings, or premises where other people will be exposed to. If customers get injured while on a person's property, then they can be held responsible. For example, if a person accidentally forgets to dry an area of a floor that he or she just mopped and someone slips and breaks a leg on that area as a result, then the person could be held liable for the injury. Liability insurance can protect against such losses. In equal measure, one's car may bump into someone or someone's property causing injury or damage. The car owner will be liable to pay for the injuries or damage caused.

Liability cover is available under property, transportation, and motor policies. Liability does not include the insured and the family members that they normally reside with.

Certain professions will require liability insurance to cover the professionals against the liabilities that may arise in the course of their jobs:

Examples:

- Lawyers – may be held liable should they fail to properly represent a client in litigation proceedings.
- Financial advisers – may be held liable when a client suffers a loss as a result of wrong advice given.
- Accountants/ Auditors – may be held liable when if they fail to make appropriate disclosures in a business' financial statements leading to a company being sanctioned by revenue collectors, or in the case of auditors, failure to make adequate and appropriate audit findings.
- Doctors – may be liable when they administer the wrong medication to a client.

22. Main types of liability insurance

Here are the main types of liability insurance:

- **Personal liability insurance** - covers any form of the liability to the policyholder. Examples: If one's dog ran into the street and attacked a child passer-by, and the parents of the child sued the owner for their ensuing medical expenses, this can be covered. Any liability that arises out of accidental death, bodily injury, illness, loss, or damage to property of third parties may be covered under the personal liability policy. If a person is held liable for wrongful arrest while they are a member of a neighborhood watch or block watch group or non-governmental organisation, they can also obtain a personal liability policy.

- **Tenants liability -** protects people who rent a complete property. It covers them for the cost of the damage they - or their guests - may cause to their landlord's house or flat, for which their tenancy agreement specifies they are responsible. This includes the building itself, as well as its fixtures and fittings. This would typically be part of a domestic insurance policy.

- **Indemnity insurance -** provides coverage to protect a professional against negligence claims due to financial harm resulting from mistakes or failure to perform.
- **Motor third party liability** – the policy ensures that damage to third party health and property caused by an accident for which driver and/or owner of the car were responsible is covered. A policy may be taken out by the owner of a vehicle or by a lawful possessor authorized by the owner on behalf of the owner. This policy can be standalone or can be purchased as part of a motor comprehensive insurance cover.

2.2.1 Liability in property policies

The insured and the family members that s/he stays with are covered for third party liability resulting in:

- Third-party property damage
- Third-party bodily injury
- Third-party death.

The house contents policy also includes **Tenants Liability**. This covers a tenant against liabilities that arise as a result of the tenant damaging the landlord's permanent fixtures and fittings.
Other insurers also include **Domestic Employee's liability**. This will cover the insured's domestic employee dies/is injured / or their property is lost during their employment.

Motor insurance liability insurance only covers injuries or damages to third parties and their property, not to the driver or the driver's property.

2.3 The typical fee structures, charges and other costs associated with insurance products in a liability policy

Personal liability insurance is sold standard with all property, motor, and transportation policies. The insurer charges an additional premium if the insured desires additional liability cover, over and above what they get from the insurer.

The premium for liability insurance is determined based on the risk posed by the nature of activities of the insured and the assets they possess which pose the risk of liability to third parties.

To calculate the premium for a liability insurance policy, the insurance company looks into various factors, such as:

- **Type of business/ professional activity** - Some individuals are riskier than others. Usually, the higher the risk in one's profession, the higher their insurance premium would be.
- **Geographical location** – In cases of property, where a house or other property is located plays a crucial role in calculating the premium for a liability insurance policy. The location of your business greatly affects local laws, geographical risks, etc.; and all these factors can drive the calculation of your product liability insurance policy as well.
- **Claim history** - Business owners will need to pay more if they have a history of more claims in the past.
- **Coverage opted** - The higher the sum insured you opt for in a product liability insurance; the more would be your payout and more would be your insurance premium.

While computing the premium for liability insurance, the insurer would also take into account the deductible limit.

2.4 The suitability of a liability policy for different types of clients

Anyone with a family - Personal liability also provides coverage for acts of negligence and accidents caused by the insured and members of their family or household to a third party.

Moving out of home - As soon as one starts living alone, personal liability insurance is important. Family members are only covered if they reside with the insured.

Ownership of assets –One stands to lose assets if they are held liable for a personal injury or property damage.

Therefore, liability insurance is important for everyone as it helps pay for the following:

- Medical costs to the third party, for the present and future.
- Restoring or replacing damaged property belonging to the third party.
- Pain and suffering of the injured party.
- Loss of income to the third party; and/or
- Legal costs and expenses when defending the insured in court.

2.5 Exclusions

2.5.1 General exclusions

What is not covered by personal liability insurance?

While your standard homeowners' insurance will cover certain personal liability claims, there are other claims that may not be covered, such as:

- Automotive accidents.
- Bodily injury caused intentionally by a member of your home.
- Business claims related to your profession.
- Injuries sustained by you or your family members.

There are plenty of other insurance options that can cover these occurrences if you so choose. In combination with homeowner's insurance, you can rest easily knowing that your family is protected from the unexpected.

2.5.2 Special exclusions

1. Compensation payable to

a) You or any member of your family normally resident with you

b) Any person acting in the course of their employment with you at the time of the accident other than domestic staff.

2. Compensation payable for loss of or damage to property in the custody or control of

a) You or any member of your family normally resident with you

b) Any person acting in the course of his employment with you at the time of the accident.

3. Compensation payable directly or indirectly due to

a) Your employment, business or profession

b) The ownership of land or buildings (other than the private residence

4. Liability accepted by agreement which would not have attached in the absence of the agreement.

2.6 Claims under a liability policy

A claim for indemnification under a liability insurance contract only arises when the liability to a third party for a certain amount has been established. For purposes of prescription, the debt becomes due when the insured is under legal liability to pay a fixed and determined sum of money. Until then a 'claim' for indemnification under the policy doesn't exist and cannot prescribe.

An insured is only entitled to indemnity against loss or damage when they become legally liable to a third party. An insured can only become legally liable to pay once that sum due by them is fixed by a court or by agreement. Until then no claim for indemnification can arise.

An insured is usually required to claim with their insurer within a specific period. The notification to the insurer must be made upon the occurrence of the defined event, or when the insured becomes aware of the event. If the insured does not institute proceedings within the stipulated period of any of those events the claim may be deemed invalid.

2.6.1 Claim procedure

- It is important that the insured notify their insurer or broker as soon as possible after an event in which they were involved, if they think it may give rise to a claim.
- They must also immediately report the incident to the police if any criminal activity was involved.
- The insured must never admit liability or offer/promise to pay for anything relating to the event, without the insurance company's express written consent to do so.
- The insured need to send all the necessary documentation relating to the case to their broker. The insurer will then take on the liability and in so doing, indemnify the client.

CHAPTER 3: MISCELLANEOUS POLICY

Learning Outcomes

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

- Distinguish between a common insurance policy and a miscellaneous insurance policy
- Identify the typical insurance policies that can be classified as miscellaneous policies
- Describe the terms, main features and characteristics of the different types of miscellaneous insurance policies.
- Discuss the typical fee structures, charges and other costs associated with policies that are classified as miscellaneous policies.
- Explain the suitability of different types of miscellaneous insurance policies to different types of clients.

Introduction

Miscellaneous is simply a classification of insurance policies that do not fall under any of the main types of personal insurance policies. There is no line of business called "miscellaneous" in essence.

3.1 What is a miscellaneous policy?

"Miscellaneous policy" means a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to any matter not otherwise defined in this section, occurs.

It is thus, an insurance policy, which cannot be classified under any of the common policies such as motor, property, transportation, etc. What makes a policy miscellaneous is it's unique characterises. A miscellaneous policy also includes a reinsurance policy in respect of a miscellaneous policy.

Miscellaneous policies have been introduced recently to deal with the evolving needs of insurance consumers. Miscellaneous insurance policies are normally designed to meet the specific needs of a client.

3.2 The range of financial products within the class of business

As specified in the definition above, miscellaneous policies are any other insurance products that do not fall into definitions provided under a property, motor, liability, accident and health, transportation, and reinsurance policy.

Some of the products that can be seen as miscellaneous policies are pet insurance products, guarantee for short-term intermediaries, and legal insurance among others.

a) Pet Insurance

Given the high costs of veterinary care, a growing number of pet owners are insuring their animals, paying a steady monthly premium for peace of mind. Medical care for a pet can sometimes cost more than what one may have on hand to spend, and no pet owner should have to choose between their pet's life and financial ruin.

Pets can also cause liability to their owners. Tales of the damage inadvertently caused by pets include uninsured dogs bolting from urban parks into traffic and causing multi-car pile-ups and an explosion of litigation, runaway guinea pigs shorting a neighbor's air conditioning system, and rabbits chewing through local telephone lines.

Pet insurance usually covers accidents, unexpected illnesses, and emergencies for dogs and cats. For a new pet owner, there are different choices when it comes to managing vet bills and liability claims.

There are generally three levels of cover to take out:

- Accident only - leaves mainstream vet bills to the owner but covers their pet in the event of accidental injury.
- Accident and illness cover – A maximum benefit of cover is assigned for a fixed one-time injury or illness until the sum has been spent.
- Accident, illness, and routine care cover which contributes towards things like vaccination, deworming, tick and flea control, sterilisation, and dental scale and polish.

Some policies will also cover alternative medicine/therapies, such as homeopathy and acupuncture if they can be administered by a provider registered with the South African Veterinary Council.

General exclusions

Pet insurance does not include preventative care like vaccinations, spaying, or neutering and one will need to take out extra cover in those cases. Pet insurance also excludes food, grooming, training and behavioural problems, and pre-existing conditions. While any hereditary diseases or defects will not be covered.

Some of the South African insurers that offer pet insurance include Hollard, Oakhurst insurance Company and GENRIC Insurance Company among others.

b) Legal insurance

Legal expenses insurance arose due to various long and complicated legal disputes experienced by the public. Legal expenses insurance covers policyholders against the potential costs associated with legal action. The offering typically comprises an insurance component covering large lump sum costs arising from litigation and an on-going service dimension that includes mediation and legal advice.

In general, products cover civil, labour, and criminal matters, and some providers cover aspects of family law. Common exclusions include pre-existing matters, cases that are not deemed to have a reasonable prospect of success, and cases where the costs are too high relative to the value of the settlement. It is standard for policies to cover a policyholder's spouse and children, and extended family can be included for an additional amount.

Premiums

While available products are broadly aligned and similarly structured, providers have differentiated their offerings.

Monthly premiums range between R35 and R230 with benefits typically at one thousand times the monthly premium. The amount covered is quoted on either an annual or per matter basis. Co-payments or excesses are uncommon and where they do apply, they are generally low. There are waiting periods for certain benefits, however, legal advice is generally available immediately.

The dominant player in the industry is Legal Expenses Insurance SA, better known as LegalWise. It is a niche insurer that provides cover for almost any violation of an individual's rights. Policyholders enjoy legal protection up to a specified sum insured in return for a renewable monthly premium. The insurer is licensed under the miscellaneous business class. Other large providers include Clientele, Legal & Tax, Hollard, Lipco, Lexcorp, and FNB's Justice 1st.

c) Guarantee insurance for intermediaries

The legislative requirement for a credit intermediary to hold a guarantee is no longer applicable from 28 September 2018. However, the Prudential Authority and the Financial Sector Conduct Authority authorised Intermediaries Guarantee Facility Limited (IGF) to operate for an extended period of six months to 31 March 2019. All Intermediaries Guarantee Facility Limited guarantees have been cancelled on this date with no run-off.

Previously, Regulations Part 4 and Section 45 of the Short-Term Insurance Act 1998 provided that a credit intermediary is required to hold a financial guarantee. This was because intermediaries collected premiums from clients and in turn, they had to hand them over to insurers. The credit guarantee insurance would thus cover intermediaries who would have failed to pay premiums to insurers. The policy would thus pay the insurers for the loss suffered as a result of the non-payment of premiums by intermediaries.

This facility was established by the short-term insurance industry specifically to provide cover to intermediaries that collected premiums or held funds on an insurer's behalf. The rationale for the fund was to provide insurers who outsourced premium collection to intermediaries with the required security.

CHAPTER 4: MOTOR POLICY

Learning Outcomes

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

- Explain and understand the different types of cover available in a personal motor insurance policy and their characteristics and key features including typical benefits payable under the policy.
- Discuss the typical fee structures, charges and other costs associated with a private motor policy
- Explain the suitability of a motor policy for different types of clients.

Introduction

Motor insurance is the most common form of personal insurance. This is because a very good number of people are in possession of motor vehicles. Motor insurance is insurance for cars, trucks, motorcycles, and other road vehicles.

Its primary use is to provide financial protection against physical damage or bodily injury resulting from traffic collisions and against liability that could also arise from incidents in a vehicle. Motor insurance may additionally offer financial protection against theft of the vehicle, and against damage to the vehicle sustained from events other than traffic collisions, such as keying, weather or natural disasters, and damage sustained by colliding with stationary objects. The specific terms of motor insurance vary from insurer to insurer and country to country for example, in other countries, it is mandatory to have third party liability motor insurance as a minimum, whereas in South Africa a percentage of the money from fuel is allocated into the Road Accident Fund (RAF), which goes towards compensating third parties in accidents.

4.1 The range of financial products within a motor policy

Definition of a motor policy according to the STIA:

"Motor policy" means a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use, or ownership of a motor vehicle, occurs.

The personal lines motor policy usually covers the following insurance products:

- personal motor insurance
- golf cart insurance
- caravan insurance
- trailer insurance.

4.2 The general characteristics and features of financial products in motor policy

A personal motor insurance policy covers any South African registered passenger vehicle, light delivery vehicle (LDV), motorcycle, trailer, or caravan.

Personal motor insurance will not cover:

- Vehicles used for emergency services, law enforcement (including traffic control and armed response vehicles), towing, carrying fare-paying passengers (like taxi or shuttle services), for racing, driving instruction, rental purposes, being used as a pool car, and vehicles modified for performance and speed are not covered.

a) Private motor insurance

A personal motor insurance policy covers any South African registered passenger vehicle, light delivery vehicle (LDV) (with a gross vehicle mass not exceeding 3 500kg).

There are three main types of cover under private motor insurance.

i) Motor - third party and/or liability cover

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

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

ii) Third-Party with Fire and Theft

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

Third-Party with Theft and Fire has limited coverage for a vehicle and protects for damage caused by the insured to other people. Coverage for fire, theft, and hijacking is included with this policy.

This policy is excellent for people who have vehicles that are affordable to repair or who do not drive much. In most cases the rates are less than comprehensive coverage while still offering protection if the vehicle is involved in a fire, stolen, or hijacked. There is no coverage if the vehicle is in an accident with another vehicle, though.

iii) Comprehensive Insurance

Comprehensive cover offers coverage for the vehicle and protects the insured from damaging the property of other people or injuring them. When a car is financed, most banks will require a comprehensive cover.

A comprehensive cover will include coverage on all types of risk including accidental damage, hail damage, fire, and theft of the insured vehicle, as well as damage caused by the insured to a third party's vehicle or assets. It also covers the insured driver in the event of damage or loss when driving a vehicle that is not his own. It is also common for an insurer to add a hired vehicle, mechanical breakdown, and in some cases medical expenses, for an additional premium. Should the insured suffer a loss or damage to his vehicle a hired vehicle can then be arranged for the duration of the repair or replacement of the insured vehicle. This cover is normally restricted to a 30-day rental period.

If the insured is in an accident that is partially their fault, the insurance will help them file the claim and settle the damage. There is peace of mind having a vehicle fully covered and being protected if one causes damage to another person.

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

Exceptions

Loss or damage:

- arising from nuclear radiation.
- arising from war, riots, or civil unrest.
- occurring outside the Republic of South Africa, Botswana, Lesotho, Malawi, Zimbabwe, Mozambique, Namibia, and Swaziland.
- while the vehicle is being used for a purpose other than for the purpose stated in the policy (for example, if the vehicle is used for business, but is only insured for private use).
- while an unlicensed driver is driving the vehicle
- while being driven by someone including the insured, under the influence of alcohol or drugs (unless the insured did not know about this).
- leave the scene of the accident
- where you have given any person consent to drive your vehicle and it is involved in an accident and the person driving is under the influence of intoxicating liquor, drugs, or medication, or the concentration of alcohol in their blood exceeds the statutory limit.

- where you drive your vehicle while it is not roadworthy, according to the definitions in the provisions and regulations of the Road Traffic Ordinances of the Republic of South Africa or any similar legislation that applies in the country where it is driven.

Extensions to cover

Some insurers provide ADDITIONAL BENEFITS to their private motor policies. Some of them include the following:

i) Dents and scratch cover

Dents and scratches insurance cover the repair of small dents, chips, and scratches in the event of accidental damage to the bodywork of an insured vehicle.

ii) Emergency medical expenses

If a passenger in a vehicle is injured as a direct result of loss or damage to an insured vehicle, this additional cover compensates for the emergency medical expenses paid for, up to the amount shown in the policy schedule, for each passenger injured, if they are not otherwise insured.

iii) Trauma counselling

If, whilst travelling in their vehicle, the insured or members of their household become victims of a violent act of theft, attempted theft or hijacking resulting in trauma for which professional counselling is needed, this cover compensates for using these services up to the amount shown in the policy schedule. The counselling must be provided by a registered professional counsellor.

iv) Vehicle keys, locks and remotes

This compensates for loss or damage to vehicle locks, keys, and remote-control units.

- Up to the limit shown in your policy schedule for any one claim.
- Does not compensate for the cost of repairing or replacing keys, locks, or remotes, which stop working due to mechanical or electrical breakdown incurred in the normal use of these devices.

iv) Emergency accommodation expenses

If an insured vehicle is lost or damaged, this cover pays emergency accommodation expenses necessarily incurred by the insured and one passenger.

b) Golf cart insurance

Golf carts have become an accepted form of transport away from the golf course many golf carts might never get to drive on the grass of a golf course. Instead, they might be used in gated communities, airports, large shopping centres, game lodges, or even at a military base.

Golf Cart Comprehensive insurance covers the insured's golf cart against the insured events such as the following:

- **Accidental Damage**
  - When operated within the vicinity of other carts and vehicles there is always the risk of collision.
  - Golf cart accidents are most often caused by unsafe driving from inexperienced drivers.
  - Golf carts might also overturn and roll down steep embankments.
  - Accident risks are higher within gated communities and areas where roads are shared with much larger vehicles.
  - Golf carts are slow and may struggle to get out of the way of faster approaching vehicles.
- **Environmental Damage**
  - Adverse weather such as wind, hail, fire, and lightning
  - Falling tree branches can cause considerable damage to the roof and windshield of the vehicle.
  - Flood or water damage may ruin an electric cart's systems, requiring extensive repair work or flat-out replacement.
- **Risk of Crime**
  - Vehicle loss caused by theft
  - Malicious damage caused by vandals such as a smash to the windscreen or damage to seat cushions.

Exclusions

There is no cover for:

- accident damage when the golf cart is used on public roads
- liability for any damage to property or injury
- racing timed trials and track events.

c) Caravan insurance[1]

Caravan insurance covers a caravan against loss, theft, accidental damage, and third-party damage, as well as acts of nature like fires, explosions, storms, earthquakes, and more.

Caravan loose contents cover can be added to a caravan insurance policy. This ensures that all those loose bits and pieces that the insured takes with when travelling are covered.

[1] Adapted from www.ccic.co.za

These contents will be covered for theft, loss, and accidental damage, as well as damage caused by acts of nature. These must be kept inside the caravan, and the schedule must state that they are paying for cover.

Caravans will be defined as a caravan, safari/4x4 trailer, or other customised units equipped for living in and designed to be pulled by a motor vehicle. This includes the manufacturer/agent's standard supplied fixtures, fittings, and contents.

d) Trailer Insurance[2]

Trailer insurance provides cove if an insured trailer is stolen, involved in an accident, damaged by a flood, or fire if it needs to be towed and stored. The insured can opt to include hail damage and trailer accessories cover.

Trailer for baggage, camping, mobile kitchen, vehicle, motorcycle, quad bike, small craft, light aircraft, animals, or other customised units equipped to carry items or goods and designed to be pulled by a motor vehicle. This includes the specialised fitments and spares.

Trailer cover includes:

- **Towing & Storage**
  If a trailer breaks down or is involved in an accident, the insurer can send a tow truck out to tow the insured to the nearest panel beater or dealer.
- **Cover for damage or theft**
  This covers the trailer when it is damaged or stolen.
- **3rd party damage**
  This would include third party damage cover up to a certain limit such as R500 000. This means that when a trailer accidentally damages another person or their property, the insured is covered.

e) Motorcycle insurance

Motorcycle insurance provides cover for loss or damage due to theft, hijacking, hail, storm, collision, fire, accidental damage, and other events as may be defined by the insurer in the policy wording. The cover usually issues as comprehensive, just like under private motor.

A motorcycle is described as a two-wheeled vehicle (with or without a sidecar) that is powered by a motor. This includes quadbikes and any similar vehicles.

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[2] Adapted from www.ccic.co.za

Additional cover on the policy may include:

- **Roadside Assist**
  - This includes 24-hour towing, flat tyres: an empty petrol tank where some petrol can be brought to the location where the insured is stuck.
- **Medical Assist**
  - A medical emergency, whether at home or on the road, in which the insured can call a telephonic assistance line for advice from trained professionals.
  - Roadside medical assistance: If you have a medical emergency on the road, we can provide emergency medical assistance.
- **Legal Assist**
  - The insured can get expert telephonic legal and tax advice from qualified professionals.
  - Basic legal services: Experts can help with basic legal services such as drawing up legal documents and courtroom preparation.

4.3 The typical fee structures, charges and other costs associated with products in a motor policy

The cost of motor insurance cover depends on several factors. The insurer will calculate the risk of getting into an incident or the risk of the vehicle being stolen and assign a premium on that basis. People are all different, but many factors are common and can be used to reasonably determine a premium:

a) **Demographics -** Among the factors which will determine the premium to be paid for a car are gender, age, marital status, where one lives, and a financial background check. These factors have a bearing because the statistics collected by insurers show that they influence the likelihood of accidents or other incidents.

b) **The type of car -** It is not just the insured, but also the vehicle they drive which determines the premium. Typically, more expensive cars will attract a higher premium as they are more expensive to repair in case of an accident and cost more to replace if stolen. However, those cars which are easily stolen (or which are regularly targeted by criminals) present a greater theft risk and therefore will attract higher premiums too.

c) **Inflation -** Importantly, premiums can increase as time goes on because in the event of an accident, the cost of repairs increases regardless of the age of the car. It does not cost any less to replace the bumper on a one-year-old vehicle than it does on the equivalent brand new one. Parts, labour, and paint will all increase over time, irrespective of the age of the vehicle and with the share of claims coming from accident damage, the reduced total value of the vehicle has little bearing on the price of the premium.

d) **The regular driver -** Another factor that is important to note on a motor policy and which has an impact on the premium is the regular driver. The regular driver of a car is usually the person who drives the car most often in a given period - usually a month. The regular driver's age and other details, like when their driving licence was issued, gender, or history of previous incidents, will be the primary factors determining the premium; most insurance companies require these details.

e) **Driving experience -** As previously mentioned, one of the factors used to determine a premium is age. Younger drivers, in particular, regularly consider this to be unfair. However, statistical evidence shows that younger drivers are a higher risk. These drivers are more likely to have an accident due to a lack of experience on the road. The higher premium, in effect, covers this higher risk. Older drivers are less likely to get into an accident and therefore have lower-priced premiums.

   While younger drivers are considered most risky, those above 30 are considered less risky. Once again, that's because accident statistics show that drivers in the older groups are less likely to have an accident.

f) **Security measures -** Protecting a car by installing an approved car alarm system or a tracking device is a good idea to reduce premiums.

   Looking after a vehicle, in the eyes of the insurer, also depends on where and how it is parked, particularly overnight. Different areas have different risk profiles, which are calculated following the frequency of thefts and other incidences of crime, such as smash and grabs and hijackings. If a car is parked in a security estate with guards at the entrance or in a locked garage, it is less likely to be targeted than one on the street. That means the premium for the protected vehicle will be lower than the one which is not undercover.

4.3.1 Using underwriting factors to determine basic insurance premiums in a motor policy

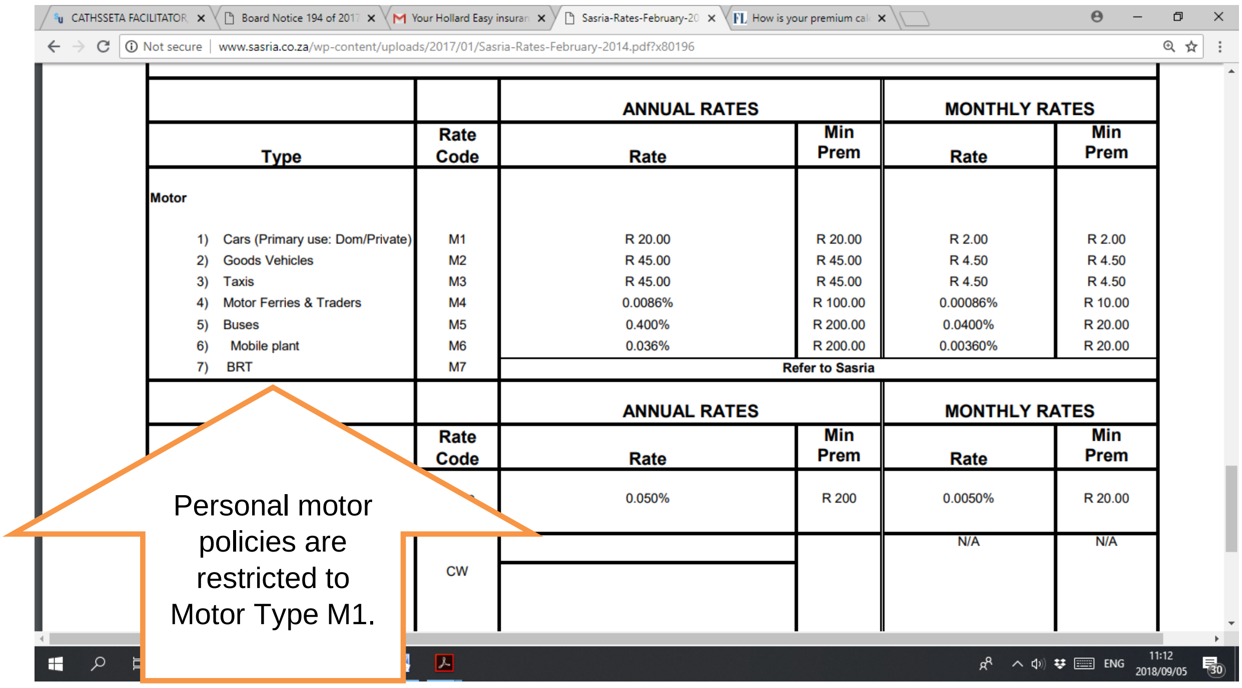
As explained in Chapter One, all short-term insurance products are underwritten to assess the level of risk that the proposer is bringing into the portfolio as well as to decide whether to accept or decline the risk. Underwriting factors considered for motor insurance are:

- The regular driver
  - Age of driver's licence
  - Age of the regular driver

- Risk address
- Parking arrangements
  - During the day
  - At night
- Claims history
- Class of use
  - Strictly private use
  - Private use
  - Full business use
  - Occasional business use
  - Commuting
  - Carpooling
- Make and model of the car
  - Size of the engine
  - Color of the car – metallic colors are expensive
- Type of cover
  - Comprehensive
  - Third-party fire and theft
  - Third party only.

SASRIA covers damage caused by non-political and political riots, public disorder (including labour disturbances, civil unrest, strikes, and lockouts).

Example of Motor policy rates are shown below:



Type	Rate Code	ANNUAL RATES Rate	ANNUAL RATES Min Prem	MONTHLY RATES Rate	MONTHLY RATES Min Prem
Motor					
1) Cars (Primary use: Dom/Private)	M1	R 20.00	R 20.00	R 2.00	R 2.00
2) Goods Vehicles	M2	R 45.00	R 45.00	R 4.50	R 4.50
3) Taxis	M3	R 45.00	R 45.00	R 4.50	R 4.50
4) Motor Ferries & Traders	M4	0.0086%	R 100.00	0.00086%	R 10.00
5) Buses	M5	0.400%	R 200.00	0.0400%	R 20.00
6) Mobile plant	M6	0.036%	R 200.00	0.00360%	R 20.00
7) BRT	M7	Refer to Sasria			

	Rate Code	ANNUAL RATES Rate	ANNUAL RATES Min Prem	MONTHLY RATES Rate	MONTHLY RATES Min Prem
		0.050%	R 200	0.0050%	R 20.00
	CW			N/A	N/A

4.4 The suitability of a motor policy for different types of clients

The suitability of different types of motor insurance products will depend on the following:

- Whether the vehicle is financed or not (Financed vehicles are better insured comprehensively- insurers insist on comprehensive insurance cover).
- The retail value of the vehicle (policyholders whose vehicle's retail values are something they can afford themselves tend to purchase third party fire and theft or a simple third-party insurance policy.

4.5 Extensions available

- Credit shortfall
- Car Hire
- Mechanical Breakdown.

CHAPTER 5: PROPERTY POLICY

Learning Outcomes

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

- Explain and understand the different types of cover available in a personal property insurance policy and their characteristics and key features including typical benefits payable under the policy.
- Discuss the typical fee structures, charges and other costs associated with a property policy
- Explain the suitability of a property policy for different types of clients.

Introduction

Whether one owns property or rent from someone else, property insurance can safeguard their financial interests. The house can be damaged by several periods, the contents thereof can also be lost through various ways and the possession of these may lead to some legal liability. Other personal possessions that one moves with on a day-to-day basis may also be lost. Having cover for the above becomes highly important.

Property insurance provides protection against most risks to property, such as fire, theft and some weather damage. This includes specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, or boiler insurance. Property is insured in two main ways - open perils and named perils.

Open perils cover all the causes of loss not specifically excluded in the policy. Common exclusions on open peril policies include damage resulting from earthquakes, floods, nuclear incidents, acts of terrorism, and war. Named perils require the actual cause of loss to be listed in the policy for insurance to be provided. The more common named perils include such damage-causing events as fire, lightning, explosion, and theft.

5.1 The range of financial products personal lines property policies & their characteristics

What is a property policy?

According to the Short-Term Insurance Act:

"Property policy" means a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as risk other than a risk more specifically contemplated in another definition in this section relating to the use, ownership, loss of or damage to movable or immovable property occurs.

Examples of property policy products are:

- House owner's insurance (buildings insurance)
- House contents insurance (householders' insurance)
- Portable possession insurance (All risks insurance).

5.1.1 House owner's insurance

The insured property is a private residence. The private residence will mean the building and outbuildings (constructed of brick, stone, or concrete roofed with slate, tile, asbestos, metal, or any other construction as specifically mentioned in the schedule) belonging to you at the situated risk address specified in the schedule.

The definition of a private residence is extended to include all structures and improvements of a permanent nature on the property, landlord's fixtures and fittings that would normally be sold with the building, including ancillary structures such as walls, courts, fences, swimming pools, was, gas connections, aerials, and satellite dishes, etc.

The following are all included as part of the insured property:

- built-in cupboards and wall-to-wall carpets.
- bathroom and kitchen fittings.
- security systems, gate motors, intercom systems.
- tennis, squash courts, stables and dog kennels for personal use.
- swimming pools in the ground and pool filtration machinery.
- saunas, spa baths.
- domestic water tanks.
- borehole machinery supplying domestic water.
- fixed generators or solar heating systems.
- fixed and permanent aerials, satellite dishes, masts, and lightning conductors.
- boundary and other walls, gates, posts, and fences.
- Any other fixtures and fittings may be spelled out in the policy.

a) Indemnity

The insurer may replace, reinstate, repair, or pay fair compensation for any property damaged by an insured event. They may do any combination of these using any suppliers. The insurer may also pay the value of the insured property when it is destroyed by an insured event but will not pay more than the sum insured for each item in the policy schedule.

If the insured property's replacement cost (at the time of the loss) is more than the sum insured, you are regarded as your insurer for the difference. This means You must pay a proportionate share of the loss. The replacement costs include the cost of demolition and professional fees.

Example: If the actual replacement cost of the building is R 1 million and the building is insured for R500 000, the insurer will compensate 50% of the loss. So, they will pay R500 000.

b) Insured events

- Fire, lightning, explosion.
- Deliberate or willful acts excluding loss or damage caused by or arising from theft or attempted theft.
- Storm or flood excluding loss or damage to gates and fences other than metal palisades and any motor attaching thereto directly caused by the movement of the land supporting the private residence even if such movement is directly or indirectly caused by storm or flood. This exclusion will not apply to the removal of land supporting the private residence by flowing surface water caused by wear and tear or gradual deterioration.
- Earthquake.
- Bursting, leaking or overflowing of water apparatus or fixed oil-fired heating apparatus.
- Theft or attempted theft provided that if the private residence is vacant there is a forcible and violent entry or exit.
- Impact by animals, vehicles, falling trees or parts of trees, aircraft and other aerial devices or articles dropped therefrom.
- Breakage or collapse of fixed radio or television aerials, satellite dishes, or masts.
- Accidental breaking of fixed glass, mirrors or sanitary ware (such as basins or toilets)
- Accidental Damage to water, sewerage, gas, electricity or phone connections
- Subsidence or Landslip damage to the insured property.
- Unoccupied Insured Properties, subject to certain terms and conditions.

Examples of property covered

Jacuzzi	Swimming pool	Borehole	Windmill	Pave driveways
Gates	Gate motor	Sauna baths	courts	fence (Excluding hedges)

d) Excess

The amount of the excess may change, depending on the type of claim.
The basic excess for each claim is usually a fixed amount, such as R1 0000. In some instances, the excess can be expressed as a percentage of the loss amount.

e) Extension of cover (extra cover)

Some of the typical extensions on a building policy includes:

- Building operations
  The cover extends to building materials, fixtures and fittings while structural building work (including alterations or additions) is done at the insured property.
- Rent
  If an insured property becomes unfit for living because of an insured event, the insurer may pay a certain percentage of the sum insured.
- Fees
  Following an insured loss or damage, the insurer may pay a certain percentage of the sum insured for fees that the insured may have to pay such as for any architect, quantity surveyor, or consulting engineer.
- Fire brigade charges
  This covers for the reasonable costs of firefighting the insured may have to pay following an insured event.
- Security guards
  The insurer may pay a certain amount of the cost of a security guard for each claim that follows an insured loss or damage.

f) Exclusions

Insurers usually do not cover for the following:

- mechanical or electrical breakdown.
- wear and tear.
- goods under guarantee; or
- claims because of spilled fuel.

5.1.2 House contents insurance

A house contents insurance (also called householders insurance) policy covers household goods and personal effects of every description of the property of the insured that does not form part of the building's fixtures and fittings.

Some policies include business goods and equipment while in the insured residence subject to a limit in any one period of insurance. This, therefore, gives the home worker a small amount of cover. It is also common for house contents insurance to include cover for household goods while contained in a furniture storage place that is normally used for such purposes.

In all these circumstances explained above, the insured property should belong to you or your family (those that normally reside with you or it can be insured property that you or your family are legally responsible for).

Examples of contents covered

TVs	Refrigerators	Beds	Blankets
Clothes	Curtains	Loose carpets	Furniture

a) Insured events

House contents insurance covers home contents inside the home against loss or damage caused directly by the insured events such as these listed below:

- Fire, lightning, and explosion.
- Weather, including storm, wind, snow, rain, hail, or flood.
- Leaking or overflowing of water from geysers, tanks, pipes, or gutters.
- Earthquake.
- Impact with the home by external forces, for example, a vehicle.
- Theft or attempted theft. There must be visible signs of forcible and violent entry unless the home is occupied at the time of the insured event.
- Malicious damage.

b) Additional benefits

Insurers may add extra benefits on house contents cover to include some of the following:

- **Protection of the home**
  The costs reasonably and necessarily incurred in employing a security guard following an insured event.
- **Keys, locks and remote-control units**
  The costs reasonably and necessarily incurred for the loss of keys and remote-control units, or damage to locks of the home, as may be considered necessary. This benefit will also apply if the insured suspects that an unauthorised person has access to duplicates.
- **Important documents**
  The cover will be provided for loss or damage to important documents such as identity documents, driver's licence and passport, valuations for the home and home contents, wills, and the land title to the home, marriage and birth certificates, contracts and agreements and education certificates among others.

- **Gifts**
  Loss or damage to items that are bought as gifts for someone else, while the gifts are kept inside the home.
- **Accidental damage**
  The cover will be provided for accidental damage to certain household items.
- **A power surge to electrical goods**
  The cover is provided for accidental damage to all electrical and electronic equipment because of an electrical power surge on the distribution line of any public authority.
- **Property of guests and domestic employees**
  The cover is provided for the loss of or damage to home contents and personal items that belong to your guests and full-time domestic employees. These goods must be inside the home at the time of the insured event and must not be insured elsewhere.
- **Spoiling of food in fridge and freezer**
  If the food that has gone off in a refrigerator or freezer because of mechanical failure, or electrical failure inside your home, the cover will be provided.
- **Laundry on the line**
  Theft of laundry on the washing line at the risk address, even if forcible and violent entry is not visible, will be paid for by the insurer.
- **Home contents at a temporary location**
  Home contents will be covered against loss or damage while the home contents are temporarily removed from the risk address, for whatever reason including moving out.

c) Exclusions

A house contents insurance policy usually does not cover the following:

- Bicycles.
- Contact lenses and prescription glasses.
- Cellphones.
- Hearing aids.
- Jewellery, watches, laptops, and other things that are stolen or damaged while you're not at home.
- Geysers.
- Fixtures, like carpets, windows, and lights.

5.1.3 All Risks insurance

This covers items that one normally carries with them including their wearing apparel when they are lost or damaged.

Items one carries out of a residence	Wearing apparel
• **Cellphones** • **Laptops** • **Cameras** • **bicycles**	• Clothes • Shoes • Jewellery • Contact lenses

Some insurers also include the following under the portable possessions (be consistent – portable possessions of all risks?) policy:

- Borehole equipment
- Swimming pool equipment
- Gas bottles (some cover this under the contents policy)
- Generators (some cover this under the contents policy)
- Satellite dishes (some cover this under the contents policy).

All risks policies are *unnamed peril policies*. This means that the insurers do not state what the insured is covered against; the policy only states what will be excluded from the cover in the event of a loss.

5.2 The typical fee structures, charges and other costs associated with products in a property policy

Traditionally, the typical fees that a client would pay for their insurance cover included the following:

- The basic insurance premium charged on the sum insured
- The administration fees
- SASRIA premiums (optional cover).

An insurer may also impose an excess payment by the insured for any claim under the property policy. The excess will either be a defined amount or a percentage of anyone's loss.

5.2.1 How are basic insurance premiums for a property policy determined?

Property policy premiums are determined by several underwriting factors that vary from one company to the next, but there are general factors that are widely used by short term insurers to determine premiums. The insurer applies a rate on the insured's sum insured to determine the insurance premiums that an individual will be liable for. Insurance rates will not be the same as they will depend on the level of risk that the insured brings into the risk pool.

Underwriting is the process of analyzing the risks that a potential client presents to the insured with the ultimate goal of achieving the following:

- Declining or accepting cover
- Deciding the number of premiums that a client would pay.

The higher the risk factors on a property to be insured, the higher the premiums that an insurer would charge. In some circumstances, insurance companies reject cover fearing high claims rates from exposed individuals.

Some of the common underwriting factors that are considered are:

- Occupancy during the day
- Security features

  Insurance companies have general minimum acceptable security measures for policyholders living in residential areas and those in security complexes.

  Normal residential area – all windows must have burglar bars, and all exiting doors must have security gates. Having a linked alarm system is a bonus as it reduces the risk of theft.

  Controlled access areas/ security complexes – the general requirement from insurance companies will be 24 hours-controlled access to the residential complex.

  Louvres and roller shutters will be accepted as security bars and gates if these conditions are met:

  - The security bars and gates are installed by an approved and trained agent; or
  - DIY installation of such products follow the manufacturer recommendations; and
  - When the property is left unoccupied the security bars and gates must be secured by closing and locking with a key; or
  - If the louvres or roller shutters do not lock with a key, it is accepted if:
    - The building is located within a security area; or
    - The building has access control to the unit if it is above ground.
  - Only products manufactured with steel and aluminum are accepted; or
  - If the product is manufactured of glass or polycarbonate, it is accepted if:

    - It is reasonably designed and manufactured to have strength and integrity similar to that of steel or aluminum security bars and gates products.

a) Construction material used

Non-standard construction material attracts higher premiums than a standard construction material. Brick under tile/zinc and asbestos are seen as standard construction materials whereas brick under thatch or wood is considered non - standard. Insurance companies would require a client to have a SABS approved lightning conductor if they have thatched main building or outbuildings.

b) Type of residence

- Detached house
- Townhouse
- Cluster home
- Garden cottage
- Flat (ground floor/above ground/double story home).

c) Situation of residence

Insurers also check if the property is situated in any of the following areas:

- Residential area
- Security village
- Smallholding/plot
- Retirement village
- Farm.

d) Residence use

- standard
- business
- Holiday home.

Using the underwriting factors mentioned above, the insurer then applies a rate (based on the level of exposure established) on the sum as shown below:

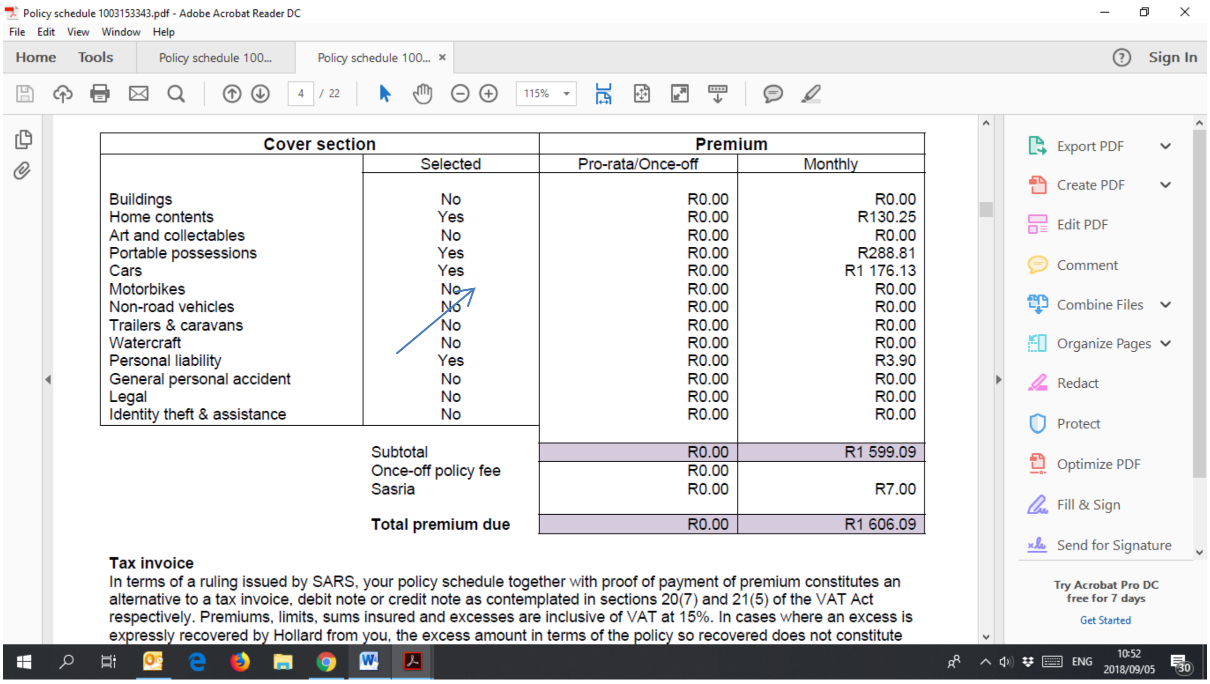
R1, 000,000 (Declared Value/Sum Insured) x 0.080 (example insurance rate) = R800.00
The basic premium quoted for this property would be R800.00.

5.2.2 Insurance administration fees

[3]According to the new Policyholder Protection Rules, insurers may no longer add fees to the premium that they charge and so the days of acquisition fees, debit order collection fees, or other administration fees were removed with effect from 1 July 2018. All insurance costs must be included in the premium the insurer charges.

Below is an example of a quotation obtained from one of the insurance companies recently**:**

You will notice that the insurer in question does not charge the once off policy fee anymore or any policy initiation fees nor does the insurer charge monthly admin fees.



Cover section		Premium	
	Selected	Pro-rata/Once-off	Monthly
Buildings	No	R0.00	R0.00
Home contents	Yes	R0.00	R130.25
Art and collectables	No	R0.00	R0.00
Portable possessions	Yes	R0.00	R288.81
Cars	Yes	R0.00	R1 176.13
Motorbikes	No	R0.00	R0.00
Non-road vehicles	No	R0.00	R0.00
Trailers & caravans	No	R0.00	R0.00
Watercraft	No	R0.00	R0.00
Personal liability	Yes	R0.00	R3.90
General personal accident	No	R0.00	R0.00
Legal	No	R0.00	R0.00
Identity theft & assistance	No	R0.00	R0.00
	Subtotal	R0.00	R1 599.09
	Once-off policy fee	R0.00	
	Sasria	R0.00	R7.00
	Total premium due	R0.00	R1 606.09

Tax invoice
In terms of a ruling issued by SARS, your policy schedule together with proof of payment of premium constitutes an alternative to a tax invoice, debit note or credit note as contemplated in sections 20(7) and 21(5) of the VAT Act respectively. Premiums, limits, sums insured and excesses are inclusive of VAT at 15%. In cases where an excess is expressly recovered by Hollard from you, the excess amount in terms of the policy so recovered does not constitute

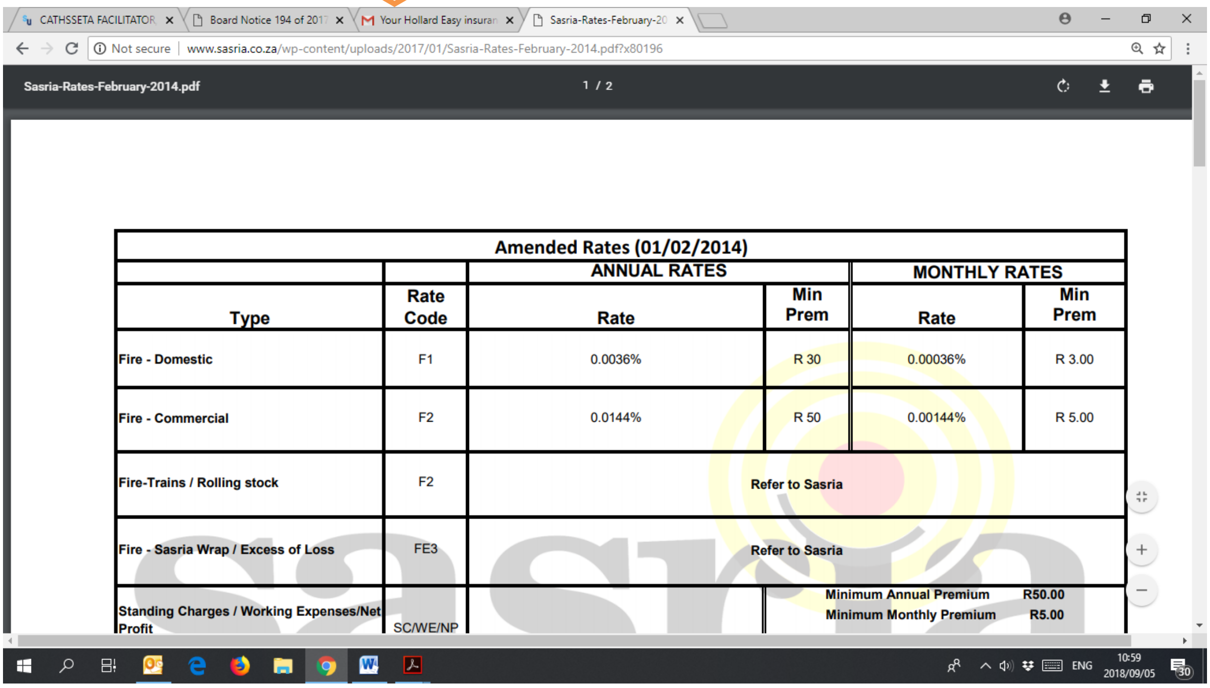
5.2.3 SASRIA premiums

SASRIA covers damage caused by non-political and political riots, public disorder (including labour disturbances, civil unrest, strikes, and lockouts). In property insurance, SASRIA's premiums are derived as a small percentage of the sum insured that conventional insurers state on their policy schedules.

SASRIA cover is optional and SASRIA premiums will only be added if a client selects the cover.

[3] www.fia.org.za;www.fanews.co.za

The Fire – Domestic depicts the annual and monthly rates charged on personal lines material damage policies other than motor policies. The rate is applied on the sum insured.



Sasria-Rates-February-2014.pdf

Amended Rates (01/02/2014)					
		ANNUAL RATES		MONTHLY RATES	
Type	Rate Code	Rate	Min Prem	Rate	Min Prem
Fire - Domestic	F1	0.0036%	R 30	0.00036%	R 3.00
Fire - Commercial	F2	0.0144%	R 50	0.00144%	R 5.00
Fire-Trains / Rolling stock	F2	Refer to Sasria			
Fire - Sasria Wrap / Excess of Loss	FE3	Refer to Sasria			
Standing Charges / Working Expenses/Net Profit	SC/WE/NP		Minimum Annual Premium R50.00 Minimum Monthly Premium R5.00		

5.3 The suitability of a property policy to different types of clients

a) Ownership of property

Property policies are ideal for all clients with possessions. With the increased level of crime and natural disasters, any property owner should invest in property policy products. Expensive portable possessions attract criminals and place the owners at a higher risk.

b) Property purchases through a mortgage (house owners' insurance)

The banker is most likely to require that a lender have a house owner's insurance policy before they finance the mortgage. Banks do this to secure their financial investment (the property in question) by ensuring that it is protected from loss or damage due to any of the insured events above. If one doesn't purchase house owner's insurance, the banks will bundle their normal monthly instalment with the insurance premiums for the house (this is more expensive than purchasing the cover separately and cover may be limited as well).

The insurer needs to conduct a proper Financial Needs Analysis to determine the amount of cover suitable for the policyholder as well as ensure that all their assets that qualify under property policies are covered.

CHAPTER 6: TRANSPORTATION POLICY

Learning Outcomes

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

- Explain and understand the different types of cover available in a transportation insurance policy and their characteristics and key features including typical benefits payable under the policy.
- Discuss the typical fee structures, charges and other costs associated with a transportation policy
- Explain the suitability of a transportation policy for different types of clients.

Introduction

Whether one is transporting goods as part of their personal business or if they are moving to a new house, there are various aspects of insurance to consider. Moving a house, in particular, can be a very stressful event. It is critical that one takes due care on the insurance arrangements around the move, as this can save them from unplanned financial losses and associated stresses.

There is a high risk in South Africa that, while goods are being transported, they may be stolen, damaged or even lost in transit. Another likely scenario is a delay due to strike action on the part of transport company employees.

The main role of a transportation or goods in transit insurance is to protect the insured against these risks which may result in considerable financial losses. The nature of cover provided will depend on the type of goods being transported, as some items may be more attractive to thieves than others.

6.1 The range of financial products within a transportation policy and their characteristics

What is the transportation policy?

According to the Short-Term Insurance Act:

"transportation policy" means a contract in terms of which a person, in return for a premium, undertakes to provide policy benefits if an event, contemplated in the contract as a risk relating to the possession, use or ownership of a vessel, aircraft or other craft or for the conveyance of persons or goods by air, space, land or water, or to the storage, treatment or handling of goods so conveyed or to be so conveyed, occurs.

Strictly speaking, the only policy in personal lines insurance that will fall under a transportation policy is watercraft insurance. In personal lines insurance, cover for goods in transit is available under the house contents policy.

Insured events

6.1.1 Watercraft insurance

This policy covers loss or damage to any motorboat, ski boat, or wet bike which consists of the hull, motors, machinery, equipment, standard fittings, and any accessories that would normally be sold with the vessel.

A watercraft insurance policy cannot be issued as a standalone policy; it has been supported by either a property policy or a motor policy**.** Trailers for watercrafts are insured under the motor policy (trailer insurance).

Watercraft must be registered and licensed in South Africa for it to be insured.

6.1.2 Goods in transit under a house contents policy

For personal lines insurance, cover for goods being conveyed from one place to the other is not sold as a standalone cover. House contents insurance policies usually contain extensions that cover one's possessions when they are in transit to a place of permanent residence. Some insurers will also specify that the vehicle transporting the goods must have been from a registered moving company. Other insurers also limit the insured events that they will pay for in the event of loss or damage to the insured possessions.

a) When will one's contents be covered?

- When one moves to a new risk address
  A house contents policy will normally cover an insured's home contents against accidental damage and fire, or theft while in transit when moving to a new risk address. The following conditions normally apply (but vary from one insurer to the other):
    - The transit of the insured home contents must be within South Africa.
    - Items must be packaged in line with the kind of item. For example, glass items are bubble wrapped.
    - The home contents may not be insured against the same events by another insurer.
    - Other insurance companies do stress that one should be moving to a new permanent risk address
    - Accidental damage includes only damage during transit because of a vehicle accident, for example, a collision; and – insurers will not cover home contents during storage, only during transit.

- Home contents at a temporary location
  Home contents are covered against loss or damage while they are temporarily removed from the risk address. The following conditions apply:
    - The home contents are kept in a building within South Africa.
    - The period may not be longer than 60 days.
    - There must be visible signs of forcible and violent entry in the case of theft or attempted theft.

Home contents are covered in the following places:

- At the building of a business where the home contents are being repaired, altered, or renovated.
- At the insured's place of employment.
- At the insured's holiday destination.

- Property of students and scholars
  Insurers also cover the property and personal belongings of students and scholars against loss or damage while temporarily removed from the risk address. The following conditions apply:
    - The personal belongings are kept in a boarding school, college, university, or other student accommodation within South Africa.
    - There must be visible signs of forcible and violent entry in the case of theft or attempted theft.

- Home contents in transit from repairs/renovations or groceries
  The insurer also covers home contents, including groceries against theft, accidental damage and fire while in transit from to or from the insured's risk address to or from any the following places.
    - the place where the insured bought their home contents from; or
    - the place where their home contents are being repaired or renovated; or
    - a bank safe deposit box: If the item is stolen from an unattended vehicle, a lower limit will apply unless:
        a) the vehicle is locked.
        b) the item is out of view and concealed in a locked boot or locked compartment; and
        c) There are clear signs of forced entry.

b) Forms of transportation

Goods are usually transported through various ways and the manner of transportation depends on the type of transport used.

i) Using professional movers

In this case cover will be extended to cover goods that are being moved by a professional company. The policy will ensure that the insured is covered for the period of moving home.

ii) Using your own vehicle

This provides cover for major transit risks and theft of goods carried in any vehicle owned or operated by the insured but not pertaining only to a specific vehicle. This is usually cheaper to insure. There is generally no restriction to the value of goods transported per load, but the insured must have sufficient cover for the total sum insured of all your goods.

iii) Goods in new home versus old home

There will be a time when some of the goods are in the new home and some still in the old home when moving in stages. Both properties will need to be included in the policy to cover the contents on both premises for the moving period. It is essential to ensure that there is correct cover in place no matter how one intends to transport goods.

6.2 The typical fee structures, charges and other costs associated with products in a transportation policy

Insurance premiums for watercraft insurance were traditionally decided using the following:

- Insurance underwriting factors to determine the basic premium
- Admin fees
- SASRIA premiums.

Excess is also imposed on transportation policies sometimes. This can be in terms of a defined amount or a percentage of the loss per each claim.

6.2.1 Determining insurance premiums using underwriting factors

- years with a skipper licence
- years owning a watercraft
- age of the insured
- type of the watercraft
- where craft is kept when not in use
- make and model
- The material of the vessel.
- horsepower
- value of the vessel
- length of the watercraft (usually not exceeding 8metres)
- engine motors (inboard, outboard, single or twin) & their total value

- value of standard accessories
- claims history.

As previously explained in previous chapters, once off fees and initiation costs (among other costs) have since been phased out. All costs must be factored in the insurance premium.

Common Exclusions

Insurers will impose restrictions on the cover to exclude the following losses:

- Loss or damage attributable to the wilful misconduct of the Insured.
- Ordinary loss in weight or volume, ordinary wear and tear or loss or damage caused by inherent vice or nature of the subject matter insured.
- Loss or damage caused by insufficiency or unsuitability of packing, covering, or securing of the subject-matter insured in or on the conveying vehicle.
- Loss or damage caused by delay, even though the delay be caused by a risk insured against.
- Capture, seizure, arrest, restraint, or detainment (hijacking excepted) of the subject matter insured.
- Consequential loss, including but not limited to loss of profits, penalties, guarantees, and extraordinary reproduction costs.
- Loss or damage to any shipping container, unless otherwise stipulated in the policy schedule.
- Loss or damage whilst the subject-matter insured is in the care of any subcontractor or person other than the haulier named in the policy schedule, unless otherwise stipulated in the policy schedule.

CHAPTER 7: REINSURANCE POLICY

Learning Outcomes

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

- Identify the different insurance policies that may require reinsurance cover and outline the key features of a reinsurance policy.
- Distinguish between the two main types of reinsurance cover/ arrangements
- Discuss the typical fee structures, charges and other costs associated with cover in a reinsurance policy
- Explain the suitability of reinsurance contracts for different types of clients or groups of clients
- Identity and describe the risks in reinsurance and strategies that reinsurers employ to reduce exposure.

Introduction

Reinsurance is insurance meant for insurance companies. Reinsurers take on a portion or all of the risks the ceding insurance company, with many dividing their total risks across several reinsurers. Reinsurance aims to reduce the risk of the ceding company becoming insolvent or bankrupt by spreading the risks and costs involved in the insurance business.

Reinsurance is also known as insurance for insurers.

It must be noted that a reinsurance policy is not necessarily a separate class of insurance, but rather it is a policy that covers any of the above-discussed classes where the insurer seeks additional capacity from a reinsurer.

The reinsurer may be a specialist reinsurance company, in other words entirely dedicated to reinsuring insurance companies, or just another insurance company.

7.1 The range of reinsurance policies and their characteristics

7.1 Reinsurance characteristics and range of products

[4]Reinsurance is a transaction whereby one insurance company (the “reinsurer”) agrees to indemnify another insurance company (the “reinsured, “cedent” or “primary” company) against all or part of the loss that the latter sustains under a policy or policies that it has issued. For this service, the ceding company pays the reinsurer a premium. The purpose of reinsurance is the same as that of insurance: to spread risk. Reinsurance helps protect insurers against unforeseen or extraordinary losses by allowing them to spread their risks.

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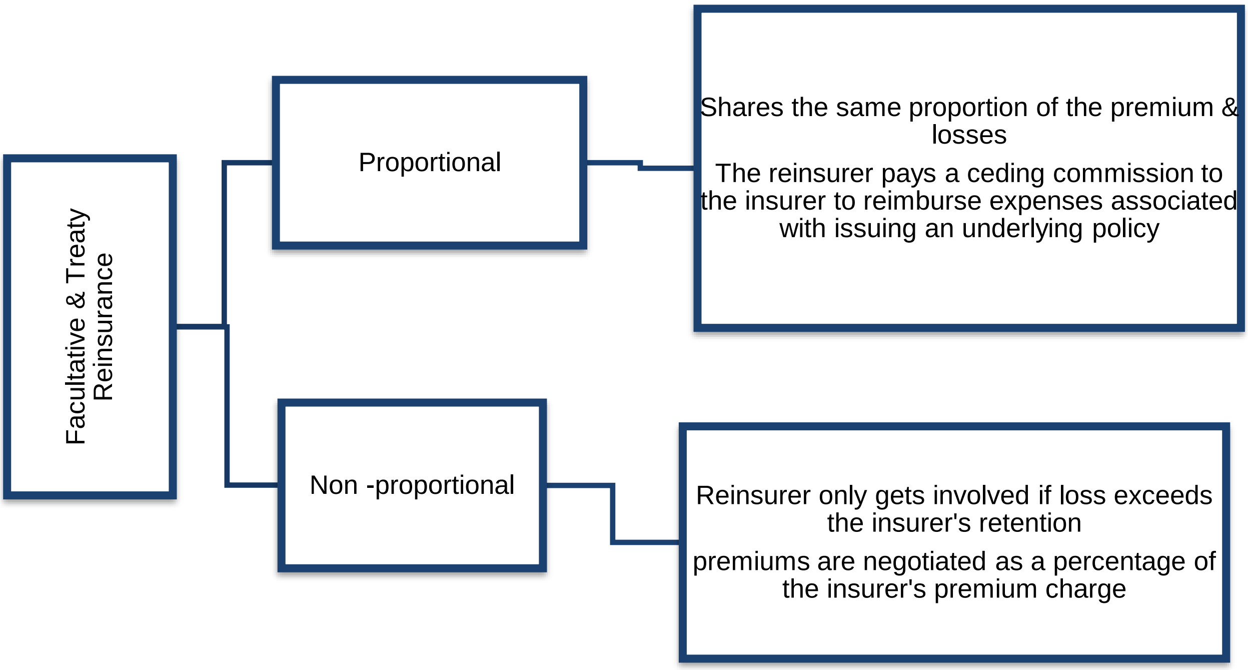
[4] www.munichre.com

For example, a catastrophic fire at an industrial enterprise could financially devastate its insurer. With reinsurance, no single insurer finds itself saddled with a financial burden beyond its ability to pay.

Reinsurance contracts can be transacted through the following methods:

- Facultative reinsurance
- Treaty reinsurance.



7.1.1 Facultative reinsurance

[5]This involves the reinsurance of large or hazardous risks on an individual basis. Its use is much less common than is treaty reinsurance as it is more cumbersome to arrange. The placing of facultative reinsurance is much like the placing of the primary insurance with an insurer. The direct insurer offers the risk to the reinsurer, who then has the option of accepting or declining the risk, creating uncertainty, and sometimes resulting in delays.

Facultative reinsurance tends to be used only where other forms of reinsurance (treaty reinsurance) have been exhausted, where the risk is outside the terms of other reinsurance arrangements or where the risk is unusual or particularly high hazard.

[5] www.cii.co.uk

7.1.2 Treaty reinsurance

[6]Treaty reinsurance was developed to overcome the difficulties associated with having to place risks individually through facultative reinsurance. Treaty reinsurance is an arrangement where one or more reinsurers agree to automatically accept all reinsurance which falls within predetermined parameters. The reinsurer is obliged to accept all risks which fall under the terms of the treaty.

Facultative and treaty reinsurance can be written on either proportional (pro-rata) or non-proportional (excess of loss) reinsurance.

7.2: TYPICAL FEE STRUCTURES, CHARGES IN A REINSURANCE POLICY

7.2.1 How are reinsurance fees determined?

Reinsurance contracts are signed on the same principles as insurance contracts; the only difference is that the insured is the insurance company with the reinsurer becoming the "insurer".

The cost of reinsurance depends on the following factors:

- Type of reinsurance method chosen
- The nature of risks to be reinsured
    - Claims history included
- Size of the reinsurance business sought

Reinsurance companies, on the other hand, pay a commission to the insurers for reasons already mentioned above.

2.2 Proportional vs non-proportional reinsurance

7.2.1 Examples of pro-rata reinsurance:

Quota share is also known as an obligatory reinsurance contract

The insurer is indemnified for a fixed percentage of loss on each risk covered by the treaty contract. The contract usually includes a maximum Rand amount over which the reinsurer is not willing to be committed to anyone's risk.

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[6] www.cii.co.uk

Example

The ceding company has a 50% quota share treaty. Therefore, 50% of all premiums and losses will be retained by the company and 50% of all premiums (less commission) and losses will be ceded to the reinsurer subject to the limit of the treaty.

The commission to the ceding company is agreed upon at say 25%

Assume a risk is written for a limit of R4 000000 at a premium of R20 000. Premium retained by ceding company: 50% of R20 000 = R 10 000
Premium paid to reinsurer: 50% of R20 000 = R 10 000
Commission to ceding company: 25% of R10 000 = R 2 500

Surplus treaty

[7]Under a surplus share type of treaty, the pro-rata proportion ceded depends on the size and type of risk. The ceding company has the right to decide how much it wants to retain on any one risk. This retention is called a "line." Any risk that falls within this retention or line is handled totally by the primary company. Whenever the company ensures a risk that is larger than the retention, the amount over the retention is ceded to the surplus share treaty **as a multiple** of the retention. All losses between the insurer's retention on the risk and reinsurer's participation are pro-rated. Since the ceding company decides how much of each risk it will cede to the treaty, the particular percentage between the insurer and reinsurer will vary.

This concept differs from a quota share treaty where the percentage is fixed between the insurer and the reinsurer's participation, for all risks. From a reinsurer's perspective, it is possible to experience adverse selection under the treaty. The ceding company may retain most of the lines on low and moderate hazard risks and may cede most of the lines on high hazard risks to the treaty. As a result, the reinsurer may not experience a good spread of all risks written by the ceding company. A surplus share treaty can aid the ceding company by helping to build policyholders' surplus, providing the capacity needed to write larger lines, stabilizing results, and minimizing insurer's exposure to large losses and catastrophic events.

Example

[7] www.munichre.com

Assume the minimum retention or line is R50, 000. The limit of the treaty is then expressed as a multiple of the line. A 9-line surplus treaty would be (9 x R50, 000) or R450, 000. The total capacity to the insurer is R500, 000. Any risk with a value of R50, 000 or less is retained and not ceded to the treaty. For risks greater than R50, 000, the insurer determines how many lines it will retain above the R50, 000 and how many lines will be ceded up to the R450, 000 limits.

Risk A

A low hazard risk with a limit of R350, 000. The insurer may retain 5 lines or R250, 000 and cede 2 lines or R100, 000 to the treaty.

Risk B

A moderate hazard risk with a limit of R400, 000. The insurer may retain 3 lines or R150, 000 and cede 5 lines or R250, 000 to the treaty.

Risk C

A high hazard risk with a limit of R500, 000. The insurer may retain 2 lines or R100, 000 and cede 8 lines or R400, 000 to the treaty.

7.2.2 Example of non-proportional reinsurance

Excess of loss

Over loss or “non-proportional” treaties, the operative word is “retention.” The reinsurer does not get involved with a loss until a predetermined retained limit of loss or retention, which the ceding company will pay, is exceeded.

Example

Assume an insurer needs capacity to write a casualty business of R1, 000,000 to compete in its market niche. Because it is a small company, it determines that it can retain the first R300, 000 loss on any risk. However, it needs reinsurance to apply to that part of any loss that exceeds the retained limit of R300, 000. In this example, an excess of loss treaty would be expressed as R700, 000 x/s R300, 000. Assume each of these risks is written by the insurer for a limit of R1, 000,000.

7.3: Who needs reinsurance?

7.3.1 The suitability of reinsurance contracts for different types of clients or groups of clients

[8]The most common reasons for purchasing reinsurance include:

- Capacity relief - Allows the reinsured to write larger amounts of insurance.
  Catastrophe protection - Protects the reinsured against a large single, catastrophic loss or multiple large losses.
- Stabilization - Helps smooth the reinsured's overall operating results from year to year.
- Surplus relief - Eases the strain on the reinsured's surplus during rapid premium growth.
- Market withdrawal - Provides a means for the reinsured to withdraw from a line of business or geographic area or production source. (runoff reinsurance)
- Market entrance - Helps the reinsured spread the risk on new lines of business until the premium volume reaches a certain point of maturity; can add confidence when in unfamiliar coverage areas.
- Expertise/experience - Provides the reinsured with a source of underwriting information when developing a new product and/or entering a new line of insurance or a new market.
- The size of the company
- Nature of risks (catastrophic vs standard risks)
- Number of lines of business that the insurer writes
- Commercial vs personal lines insurance
- Regulatory changes in the market.

7.3.1.1 Personal accident policy

For the personal accident account, reinsurance coverage would normally be designed to protect against both known exposure and unknown exposure, that is, for those claims arising out of an event where the accumulation exposure should not be known to the insurer. Traditionally known exposure is reinsured under proportional treaties, such as quota share and (sometimes) surplus or a combination thereof. The use of an excess of loss cover has become increasingly common because of its relatively simple administration.

[8] www.munichre.com

7.3.1.2 Motor policy

In practice, there are only two suitable types of reinsurance protection for a motor account: quota share and excess of loss. These two types can also be combined.
Quota share is the simpler of the two alternatives, particularly if the original policies do not provide unlimited liability coverage. The insurer retains a specified share of each policy and can fix his retention to suit the capital resources available. If the policies provide unlimited liability cover, quota share can still be used but it is normal to arrange excess of loss reinsurance to protect either the net retained account or the common account, that is, the account of both the company and the proportional reinsurers.

7.3.1.3 Reinsurance for large risks

An excess of loss treaty provides the insurer capacity to write large risks. It primarily protects the severity of a loss.

Usually high net worth individuals and families who have many assets to be insured including expensive houses and vehicles would need reinsurance cover on their underlying policies.

7.4: Risks in reinsurance

The global and local reinsurance market is facing several disruptive forces including regulatory change, provision of alternative capital, intermediary capabilities and roles, and emerging risks. Elements of the traditional reinsurance value proposition such as risk transfer, balance sheet protection, and provision of technical expertise may have a diminished worth in the face of these disruptions. (kpmg.co.za)

7.4.1 Risks to the insurance companies

- Lack of reinsurance support for specialised forms of risks (Reinsurers tend to not accept some specialised forms of risks like open cast mining and crop reinsurance)
- Lack of reinsurance support for high risks (high fire risks)
- Non-admitted reinsurers repatriating capital to their holding companies - this has negative factors like
    - Decreased investment in the country
    - Less development in the insurance industry through education, training and job creation.

7.4.2 Risks to reinsurers

- The exchange rate (taking into consideration the currency clause).
    - Currency fluctuations affect the net underwriting premium of the reinsurers.

- Reduced demand in reinsurance due to economic crisis and financially stronger insurance companies who demand less insurance. There is also an increase in coinsurance in some classes of business.
- Increase in captive reinsurance as it is seen as a cheaper alternative to traditional reinsurance
- The impact of emerging risks
  Emerging risks will force insurers and reinsurers to anticipate changes in the insurance market, particularly in terms of claims, new products, and profitability. Even with the caveats in insurance policies now, such as restriction to claims-made policies, a change in law may expose insurers to unexpected risks and potentially large claims, as seen with the asbestos claims. This has a direct impact on reinsurers particularly for those with no aggregated limits.
  Reinsurers have little to no additional information to provide technical expertise to insurers on how to deal with emerging risks and the evolution of the insurance market
- Technological risks -technological risk. Examples include autonomous vehicles, a vulnerability in cloud computing and cybersecurity, nanotechnology, infrastructure breakdown, and communications failure.
  These advancements require insurers to determine changes to their insurance products and offerings. With the introduction of autonomous vehicles, this will directly impact the insurance market forcing insurers and reinsurers to consider the changes that are likely to occur within the motor insurance space and how to sustain their business in this new environment.

7.4.3 Strategies for reducing risks in a reinsurance contract

Strategies for insurers:

- Accepting higher rates for reinsurance for special risks/ catastrophic bane
- Better risk management and improved local knowledge sharing could also be used to create a more effective and knowledgeable reinsurance market, and this then tied in with the suggestion of improved relationships with reinsurers, and the ability to improve rates/acceptance of risks through these relationships.

Strategies for reinsurers

- Tapping into emerging business opportunities such as political violence and terrorism risks, agricultural insurance, and cyber insurance. The problem of expertise and capacity mar this potential growth nonetheless.

[9]In light of the above, Africa Rewrites on www.cover.co.za, that the winners will be the reinsurers, which follow the rules below:

- Maintain underwriting discipline and stop chasing the market
- Know when to contract new business
- Know when and where to grow and stop growing faster in unknown markets
- Lead some specialty products and stop relying only on commoditized products
- Offer tailor-made solutions to move up the value chain
- Match risk with the required capital
- Adopt best practices in corporate governance
- Improve risk management

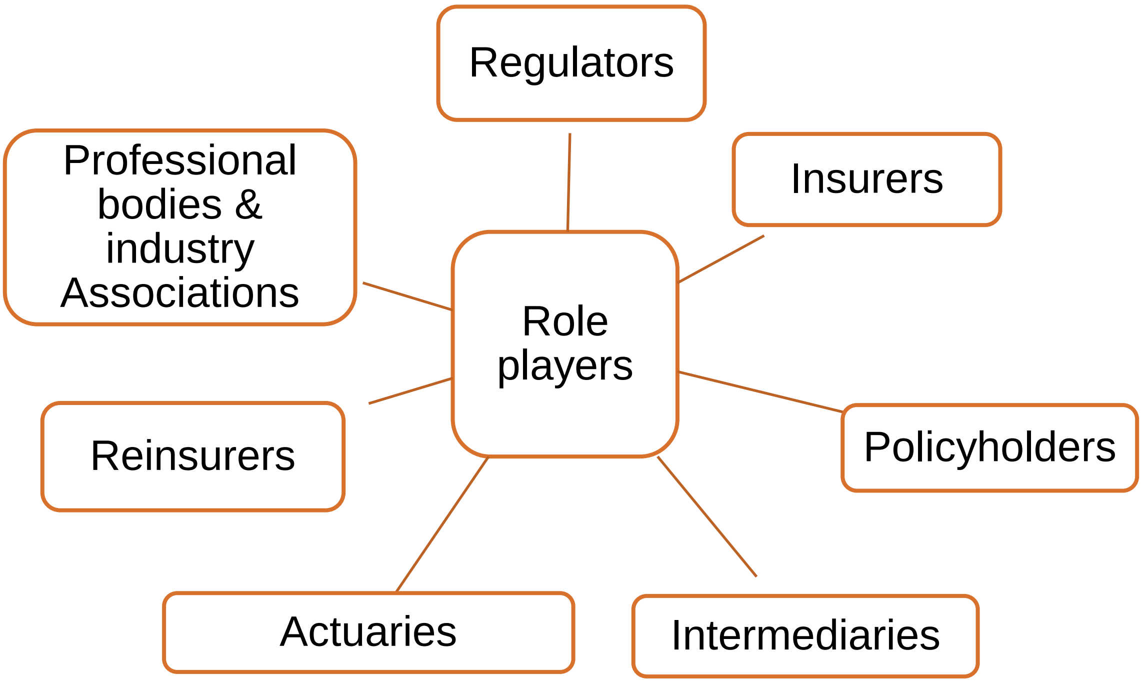
[9] www.cover.co.za

CHAPTER 8: INSURANCE INDUSTRY ROLE PLAYERS

Learning Outcomes

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

- Identify the role of the key role players and market participants within the insurance industry
- Discuss the main functions and role played by each of the role players and outline their legal structure.
- Outline the manner of operation of each of the role players and market participants in the industry.



8.1. Regulators

There are two main regulators of the financial services industry in South Africa. The model of regulation used is called Twin Peaks. Twin Peaks simply referring to two equal regulators, regulating the same industry, with different functions.

The two regulators are:

- The Financial Sector Conduct Authority
- The Prudential Authority.

These are discussed below:

a) The Financial Sector Conduct Authority (FSCA)

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.

(FSCA) is responsible for market conduct regulation and supervision. FSCA aims to enhance and support the efficiency and integrity of financial markets and to protect financial customers by promoting their fair treatment by financial institutions, as well as providing financial customers with financial education. The FSCA will further assist in maintaining financial stability.

b) Prudential Authority (PA)

The PA is a juristic person operating within the administration of the South African Reserve Bank (SARB). It consists of the following four departments: Financial Conglomerate Supervision Department; Banking, Insurance and Financial Market Infrastructure Supervision Department; Risk Support Department; and Policy, Statistics, and Industry Support Department.

8.2. Short-term Insurers

An insurance company that issues a particular insurance policy to an insured. In case of very large risk, several insurance companies may combine to issue one policy. Insurers develop products that suit their market and distribute these products through various channels such as retailers, insurance brokers, and banks, among others. They charge a premium on the policies they offer, which the insured must pay regularly.

Short-term insurers' main areas of activities are:

- Personal lines insurance
- Business insurance
- Reinsurance; and
- South African Special Risks Association cover for losses sustained during riots, civil disturbances, lockouts, and other uprisings.

8.3 The policyholder

This is the insured – the most important person in the insurance equation. An insurance policy, being a contract, requires at least two parties. One of the parties is the insurance company, and the other is the policyholder who agrees to the specified terms for coverage. The policyholder or insured must pay the premium regularly without missing any installments and ensure that the insured items are well taken care of because any negligence in handling or keeping an insured item may result in a repudiation of a claim. The policyholder must also disclose to the insurer any material circumstances that may increase their risk.

8.4. Insurance Intermediaries

An insurance intermediary is a broker or an agent who represents a consumer in an insurance transaction. Insurance intermediaries act as “go-betweens” between the individual or organisation and the insurers. They will analyse the insurance needs of the client and advise her/him on the insurance products that will fit their needs. In this way the client will get the maximum benefit from her/his investments and, with long term insurance, will be able to put money aside for future needs.

The insurance intermediary has a distinct role in the transactions, which include:

- Providing all material related to the proposed coverage to enable the prospect to choose the best option for their needs.
- Advising the prospect with complete transparency and disclosure.
- Ensuring effective coordination between the customer and the insurer.

8.5. Actuaries

Actuaries are highly specialised professionals who use their skills in economics, mathematics, and statistics to evaluate long-term financial prospects. The period of study for becoming an actuary is a long and difficult one, with the usual period being 6 more years after an initial university degree. Also, the failure rate for the examinations is very high. This has meant that South Africa has a very small number of qualified actuaries. Many actuaries are employed in life insurance offices, where their skills are used to calculate risk and probability for long-term investments such as life insurance, health insurance, and retirement funds.

As businesses start to focus on long-term, strategic planning for the company, the demand for the forecasts of actuaries is increasing.

The main activities of an actuary are:

- Calculating the likelihood of certain events
- Calculating mortality tables for life insurers
- Working out appropriate premium charges for insurance products; and
- Providing professional assistance to attorneys, particularly those who are involved in Third-Party claims.

8.6. Reinsurers

A reinsurer is a company that provides financial protection to insurance companies. Reinsurers handle risks that are too large for insurance companies to handle on their own and make it possible for insurers to obtain more business (that is, underwrite more policies) than they would otherwise be able to. Reinsurers also make it possible for primary insurers to keep less capital on hand to cover potential losses.

There are large global reinsurers that have offices in South Africa. These include Munich Reinsurance Company, Swiss Re Ltd, and Hanover Reinsurance. These large reinsurance companies can insure very large risks.

Globally, most huge insurance transactions are concluded at Lloyd’s of London. Lloyds of London, generally known simply as Lloyd's, is an insurance and reinsurance market located in London, United Kingdom. Unlike most of its competitors in the industry, it is not an insurance company; rather, Lloyd's is a corporate body/ a market where insurers and intermediaries meet to transact insurance.

8.7 Professional Bodies

Professional bodies perform advocacy for their respective industry whilst promoting professional standards, fostering professional learning, and seeking to enhance the status of their particular profession. Many professional bodies also engage in research related to the functions of the profession that they represent.

There are two main professional bodies for the short-term insurance industry in South Africa. These are the Insurance Institute of South Africa (IISA) and the Institute of Risk Management South Africa (IRMSA).

- **The IISA** seeks to build capacity within the insurance industry through insurance skills development & exposure to the insurance profession, thereby mitigating skills shortage, improving opportunities for employment & social security thus making a sustainable contribution to the insurance industry and the economy.
- **The IRMSA** is recognised as the Professional Body for Risk Management in South Africa by the South African Qualifications Authority (SAQA). IRMSA represents individuals and companies committed to the enhancement of the Risk Management discipline. IRMSA serves aspiring risk practitioners, risk professionals, and decision-makers in Southern Africa, dedicated to the advancement of the risk management profession through accreditation, research, promotion, education, upliftment, training, guidance, and strong relationships with other Institutes or Associations.

8.8 industry Associations

The role of industry associations is to educate, promote, and teach members and non-members about the industry. Industry associations play an important role in providing a collective voice for individual businesses within an industry. They also act as drivers of strategic management of innovation in the industry. They are usually not for profit organisations.

The Industry Association for short-term insurance is the South African Insurance Association (SAIA). The 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. Its members abide by the SAIA Code of Conduct, which ensures adherence to best-practice industry standards and self-regulation.

CHAPTER 9: THE IMPACT OF LEGISLATION CHANGES ON STI

Learning Outcomes

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

- Identify and describe the different pieces of legislation that govern the operations of insurance companies
- Discuss the key requirements and provisions of each of the legislation
- Explain the potential consequences that come with failure to comply with any of the legislation.

Introduction

The South African market is heavily regulated, and constant changes are made to protect the consumers of financial products. Several legislation and regulations have either been enacted or amended, changing the South Africa insurance landscape.

The following are key pieces of legislation that impact on the provision of STI products. These need some mention and their impact:

- Short-Term Insurance
- Insurance Act 2017
- FAIS ACT 2002
- Financial Sector Regulation Act 2017 (gave rise to Twin Peaks)
- FAIS General code of conduct
- POPI Act.

9.1 The role of legislation in Insurance

The legislation is important in the industry because the industry handles the funds of the public and also there is a lot of information asymmetry, where one party is not, either the insurer or insured does not have sufficient information.

Below is a list of the roles played by legislation and regulation within the insurance industry:

- Ensures there is adequate consumer protection
- Ensures consumers are treated fairly
- Ensure insurers do not fail to the detriment of their clients
- Ensure there is sufficient sharing of information between insurers, insureds, and regulators.
- Ensure a high level of professionalism in the industry.

9.2 VAT changes[10]

VAT was increased in *April 2018* from 14%to 15% to meet the revenue shortfall announce in the mid-term budget. This was the first VAT increase in 25 years and is expected to raise approximately R22.9 billion more for the fiscus, collectible by the South Africa Revenue Services (SARS). Although the increase to the end consumer of 1% can be seen as *relatively small as part of the bigger picture*, the potential amount of time, resources, and effort to the entire short-term insurance industry are massive. The impact will be felt by all.

a) Additional costs to meet VAT changes

Not only will all companies need to update their systems, but they will also need to train staff, communicate to customers and ensure nothing slips through the cracks, all in a very short space of time. This is in addition to the significant amount of system enhancements and improvements required to cater for this change. The biggest winners will be the IT companies contracted to fix the problems in the technology. The insurance companies would need to invest a substantial amount of resources to gear up for the change.

b) Revenue leakages

If an annual policy is already in force, where premiums are collected monthly, is the premium automatically increased? Perhaps not, as the contract has already been entered into and the supply was at the inception date of the policy. Will the insurer then lose the 1% collection of premiums, yet the revenue man expects him to submit at the new rate of 15%?

c) Accounting Issues

If a policy is written at 14% and subsequently cancelled (at 15%), how much is the refunded amount? One would think it would be at 14%, but what if there were additions/endorsements to the cover before or after 01 April 2018?

From a reinsurance perspective, there will be potential VAT leakage (or negative leakage) due to the delay in settling accounts with reinsurers.
If a policy is incepted and the cash is received by a broker in March 2018 and paid over to the insured in April 2018 (within 15 days), does the insurer have sufficient information at the end of March to capture the transaction accurately?

d) Risk appetite levels

Rating engines use the sum insured value to price and accept/reject a risk. If the sum insureds were to automatically increase, what would happen to policies that now fall outside

[10] Adapted from Fanews article written by Yusuf Boadiat, Lion of Africa

the risk appetite of the company? For large risks, would forums/committees need to re-convene to determine if the risk is still appropriate?

The above are just a handful of scenarios that insurance companies will need to firstly understand and then amend their systems to cater for. Due to the large number of transactions that insurance companies process daily, it will be extremely difficult to correctly account for these VAT anomalies. So many instances where the VAT is calculated incorrectly will need to be re-coded and then retrospectively adjusted. Depending on the nature and size of these complexities, VAT payment trends/cycles could change shape completely.

9.3 The enactment of the Insurance Act [11]

The Insurance Act, 2017, was signed into law on 17 January 2018. This new framework is consistent with international standards for insurance regulation and supervision. The Act will replace and combine many parts of the Long-Term Insurance Act and the Short-Term Insurance Act.

a) Regulation of foreign-based insurers

One notable function of the Act is that it will seek to provide stricter regulation of foreign-based insurers which are underwriting risks in South Africa. This is to throttle the solicitation of insurance and reinsurance business by foreign insurers/reinsurers from within SA.

The Act will prohibit these foreign companies from soliciting business in South Africa on a cross-border basis. Unless, of course, the *reinsurance* company conducts *reinsurance* business through a branch established in South Africa. No direct insurance will be licensed, however. This will ensure that foreign insurers are monitored to ensure the safety and soundness of insurers in general.

Furthermore, the new prudential framework – called the Solvency Assessment and Management (SAM) framework – has been developed to improve policyholder protection. It will contribute to financial stability through aligning insurers' regulatory capital requirements with the underlying risks like:

- The ability to meet their long and short-term promises to their clients
- The ability to remain financially stable, and continue to pay claims

b) Protection of the small industry players

The Act will, therefore, ensure that the less-wealthy will be protected from any outcomes arising from market failures. The legislation aims to bring about a safe and fair insurance

[11] Adapted from the article from www.compareguru.co.za by Jason Synman (May 4,2018)

market. More providers of financial services will be brought into the regulatory net and micro-insurers will have an easier time accessing the market.

9.4 The changes in the Short-Term Insurance Act[12]

The following changes have been put in place concerning the premium collection. Short-term Insurance Act 1998: Proposed amendments to the regulations made under section 70 affecting premium collection:

a) New draft premium collection legislation

The draft regulations require detailed premium collection authorisations by insurers to intermediaries. The proposed regulations also require a separate bank account for premiums received and require payment directly out of that bank account to the insurer fewer premium refunds and commission within a maximum of 45 days. The amendments will take effect on 2 July 2018 which is probably irrational because of the agreements and systems that will have to be in place by then

b) Detailed authorisation and monitoring required

- A premium collection authorisation will have to specify the duration, functions performed, commission payable, level and standard of services, required operational requirements of the intermediary, the type and frequency of reporting, and the manner and means by which the insurer will monitor performance and compliance with the authorisation. Only one intermediary can be authorised to deal with specific premiums.
- Before granting the authorisation, the insurer must be satisfied that the independent intermediary has the operational ability to perform the functions, that the insurer's risks will not be materially increased, and that the fair treatment and continuous satisfactory service to policyholders will not be compromised. Insurers must monitor independent intermediaries 'on an ongoing basis and have contingency plans in place if there are any shortcomings.

c) Separate intermediary bank account needed

The intermediary receiving premiums must account for their premiums properly and promptly and open and maintain a separate bank account for that purpose. Premiums must be received by electronic means or in cash. If in cash, a proper detailed receipt must be given as specified.

d) Payment directly from a bank account to insurer

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[12] *Adapted from an article in www.moneymarketing.co.za by Patrick Bracher, director of Norton Rose Fulbright*

- Money in the bank account can only be transferred out of that bank account directly to the insurer. No other investment of premiums will be permitted which will presumably take a large chunk of investment money out of the economy. Has the impact of this legislation on the economy been assessed?
- Premiums must be paid over by the intermediary to the insurer within 15 days of the end of every month in which the premiums are received. At the same time, the independent intermediary must furnish the insurer with returns in the form required by the insurer containing information regarding premiums received, commission payable, and amounts paid to the insurer.

e) Commission and premium refunds can be deducted

When paying over the amount, the intermediary can deduct a refund of premiums payable by the insurer to any policyholder or prospective policyholder represented by the independent intermediary. This will mean a netting off across the board of refunds ‘due and payable’ by the insurer without any obligation on the intermediary to account specifically to the insurer in that regard. This will have to be dealt with in the authorisations. The intermediary can also deduct the consideration payable for rendering services as an intermediary (usually commission). The regulation will not allow, for instance, the deduction of binder fees.

f) Transformation assistance by binder holders

- The regulations also deal obliquely with transformation requirements. A binder agreement must ‘provide for mechanisms and measures that will assist the insurer in meeting procurement, enterprise and supplier development targets relating to the transformation of the insurance sector’. In other words, when insurers outsource binder functions, the binder holder must help the insurers to achieve their committed or required BEE transformation targets under the Broad-Based Black Economic Empowerment Act and Financial Sector Code.
- Insurers will have to consider whether it is rationally and reasonably possible to replace all premium collection authorisations with the detailed authorisation required by the regulations by 2 July 2018 bearing in mind the pre-authorisation assessments needed and followed by the negotiation of new agreements with premium-collecting intermediaries.

9.5 Changes in the Policyholder Protection Rules (PPRs)[13]

[13] This section was sourced from www.fanews.co.za,www.fia.org.za (Article written by Hollard)

PPRs apply to natural persons and juristic persons whose asset value or annual turnover is less than R2 million. Previously PPR only affected personal lines policies, where the insured is an individual. The new rules add small commercial entities to the mix. This means insurers are going to start asking for information on turnover for each commercial policy they underwrite to establish whether or not that client will fall under PPR. Brokers will need to have that information readily available to avoid delays. This will mean these small commercial policies need to be plain language and all the disclosure requirements will now also apply to these policies.

Below are some practical tips for implementation and compliance with several rules:

Determining premiums - (**Rules 6.2-6.4)** Insurers must ensure that they are aware of what permissible fees they may or may not charge in addition to premium(s). An "insurer fee" is not chargeable in addition to premium(s). Charges are only permitted if explicitly provided for in the policy or terms of legislation. Also, remember that disclosures need to be updated to ensure that they are clear and prominent to policyholders as to what these fees are. This must be done before entering into the policy.

Advertising (rule 10) - Insurers will need to put in place an advertising policy that complies with the advertising of insurance products as stipulated in this rule.

Ongoing review of product performance (Rule 14) - Insurers need to ensure that there are processes in place to constantly review product performance. This is a principle of Treating Customers Fairly (TCF) which insurers would already be complying with.

Replacement of policies (Rule 19) -Insurers will need to ensure that they have updated their administrative systems and that their staff and intermediaries are aware of the process required to replace another insurance policy with theirs. Also, compliance will need to ensure that if any non-disclosure by an intermediary is established then this must be reported to the Registrar. Further, depending on when the non-disclosure is established, the policyholder must also be notified. Intermediaries are therefore required to ensure that they comply with their obligations under the Financial Advisory and Intermediary Services Act 2002 or face potential transgressions under insurance legislation as well as claims under their professional indemnity insurance policy.

Insurers will have to far more carefully manage and oversee the intermediaries they take on and must be a signatory to all their intermediary agreements. They can no longer pass this onto their administrators and UMAs to finalise on their own.

9.5.1 Introduction of TCF to PPRs

The Treating Customers Fairly (TCF) has been formally introduced into law through legislation. Previously, there was no punitive action that could be taken against companies who breached TCF as there was no legislative framework from which it operated. Now the FSB's six TCF outcomes are specifically set out in the rules.

The new rules place a lot more onus on insurance companies to ensure that all intermediaries acting on their behalf are providing clients with the right advice. This means attention will be paid a lot more closely to a company's records of advice, competency of the FSPs reps, and complaints registers. Having a FAIS license and PI policy is not going to be enough.

a) An insurer must be a signatory to all agreements

There is also a lot of work to be done on the various types of intermediary agreements in which the insurer is not a party. Often you have sub-brokers writing for bigger brokers, you have brokers writing through administrators or UMAs, but the agreement sits between the administrator and the end broker, or the bigger broker and the sub-broker. That is no longer allowed.

The rules are very clear that the insurer must at least be a signatory – so it could be a tripartite agreement between the insurer, administrator, and the end broker, but there must be an agreement between the insurer and the end broker. This is going to require a tremendous amount of work, both from an insurer and intermediary perspective.

Another big change is that clients need to see concise summaries of all policy wordings before signing. This will require a change in the take-on process.

b) Restrictions or exclusions

We will also have to be more upfront about material restrictions or exclusions in the policy – things that might change a client's mind about taking out the policy in the first place. So, for example, if the policy has a named driver clause or attracts cumulative excesses, or if it requires a tracking device or alarm to be fitted, the client might decide to go to another insurer even though the premium is higher. A client needs to know these details at the quotation stage.

c) Broker fees

Another thing they expect insurers to police is the broker fee. If we facilitate in the collection of the premium and the broker fee, the FSB says we need to ensure that the broker fee is reasonable, that the client has agreed to it, and that you have explained to the client what the broker fee is for.

There is also a lot more emphasis on intermediaries understanding insurers' management frameworks for data, claims, and complaints as these will apply to you as well.

d) Binder regulations

These regulations only affect binder holders – in other words, intermediaries who work generally on their off-platform systems, where the insurer does not know what premium is being quoted or what risk is being entered into.

If you're working on the insurer's system in real-time, there's no binder – regardless of the discretion that's been granted to you. This activity would generally be referred to as policy data administration and it has not yet been regulated in the new regulations. If you are a binder holder and you're not registered to advise on your FAIS licence and you are not administering policies provided by a broker associated with your company, the caps will not apply and the current rules will remain in force, i.e. fees must be reasonable and commensurate with the work being performed. If you're taking business from a broker that's associated with you, then the caps apply.

If you don't have advice on your licence and you're working with an end broker, the end broker is effectively telling you where to place the policy. In this situation, the fee caps won't apply. This doesn't mean you can pay a profit share. It just means that the current rules will apply. In other words, you must charge a fair and reasonable fee that relates to what it costs you to run that particular client.

Binder Function		Maximum Fee Payable
Enter into a vary or renew a policy – function (a)	Function (a) only	3.5%
Determine wording of a policy – function (b)	Function (a) and one or more of functions (b)-(d)	5%
Determine premiums under a policy – function (c)		
Determine value of policy benefits – function (d)	One or more of functions (b)-(d) only	0%
Settle claims under a policy – function (e)		4%

The maximum fee allowed under a binder agreement on the underwriting side is 5%.
For now, there has been no segmentation on the claims cap of 4%.

e) Data

Binder holders are required to amend their systems so that insurers have access to up-to-date, accurate, and complete information at any time. So now instead of binder holders pushing data, insurers will be pulling it as and when we need it. Binder holders will have to ring-fence the data that applies to the respective insurer so they can't see each other's details and it must be updated daily.

f) The insurer to bear the cost of an SMS "opt-out option" by the recipient[14]

The new rules now stipulate that the reply STOP mechanism may no longer be charged to the message recipient. All companies sending SMS messages of this nature have 6 months to comply, which means that by 1 July 2018, they will need to have the correct messaging facility in place.

It is important to note that the PPRs definition of a "policyholder" in section 10.2.1 is inclusive of both existing customers and potential policyholders or members of a group scheme. In effect, this new ruling relates to all paying members as well as anyone being marketed to by, or on behalf of, the insurer.
A 'free to opt-out' facility is now required for all insurance companies as well as those companies handling messaging or lead generation for insurers. In practice, this means that the cost of an SMS STOP request is to be carried by the sender of the direct marketing message and not the recipient. Due to the nature of the reverse billed SMS service generally being set up as a separate SMS bind with the mobile network operators, insurers will need to contact their service provider directly to request that a reverse billed SMS service to be activated on their account.

FAIS Act – give a bit of an outline of the purpose of the FAIS Act as well as key provisions that apply to short-term insurance.

9.5.2. Twins Peaks [15]

[14] *Sms 'opt out' article adapted from Dr. Piet Streicher, Managing Director of BulkSMS.com*

[15] *"Bye FSB, hello FSCA" published on 11 April 2018 by Shayne Krige, Werksmans Attorneys*

The Financial Regulation Act, 9 of 2017 changed the face of regulation in The Financial Services industry. The Act introduced a system of financial regulation by establishing the Prudential Authority and the Financial Sector Conduct Authority. The regulation by these two regulators is known as the Twin Peaks regulation.

The Act came into effect on 1 April 2018 with the introduction of the Financial Sector Conduct Authority (FSCA) that took over the (Financial Services Board) FSB. Read the article below about the introduction of the FSCA.

As of 1 April 2018, there is a new sheriff for the South African financial services sector. The Financial Services Board (FSB) has been replaced by the Financial Sector Conduct Authority (FSCA).

Here are five things you need to know about this development.

1. The change from the FSB to the FSCA is a further step on the path towards implementing the "Twin Peaks" model of financial sector regulation in South Africa. Twin Peaks is a model for regulating financial services. Notwithstanding the David Lynch reference, Twin Peaks was pioneered in Australia in 1998 and has since been adopted by the Netherlands, Belgium, New Zealand, and the United Kingdom. To date, South Africa has adopted an "integrated" approach to financial regulation with the FSB acting as a "super-regulator" with responsibility for regulating both the conduct of financial market participants like investment managers and also the prudential soundness of financial institutions like banks. The main advantage of the super-regulator approach is that it focusses on limited resources, notable personnel in countries where these resources are scarce. However, critics argue that market conduct and prudential regulation require fundamentally different approaches and cultures and note that no country that has ever adopted Twin Peaks has ever gone back to a super-regulator model.

2. South Africa has implemented Twin Peaks through the Financial Sector Regulation Act (FSRA) which has come into force but is only partially in effect.

3. The twin peaks of regulation in South Africa will be:

* market conduct regulation, including investment funds and investment managers, which will be the domain of the FSCA which replaces the FSB; and

* regulation of financial institutions, including banks, which will be the domain of the Prudential Authority (PRA), housed in the South African Reserve Bank.

4. The shift from the current sectoral licensing model to a more centralised, activity-based licensing model has not yet been adopted. This will follow the implementation of a new licensing regime, which will focus on defined activities that a prospective licensee wishes to perform rather than on particular sectors of the market. The Conduct of Financial Institutions (COFI) Act will define all of these activities in a single, overarching law and will replace the

Financial Advisory and Intermediary Services Act (FAIS). Financial institutions, including entities currently regulated as financial services providers, will need to hold a licence from the FSCA to render a financial service in respect of specific, defined activities they perform. National treasury has set up a panel to develop the COFI Bill and it is anticipated that the first draft will be distributed for comment around the middle of this year.

5. The parameters of licencing under the COFI Bill have not been finalised, but current discussions have contemplated that –

a) a "one size fits all" approach will not be taken to licensing but instead the requirements for licensees will be proportionate to the risks underlying the business activities of different entities.

b) and the FSCA will enter into Memoranda of Understanding with other regulatory authorities, including the PRA so that there is clarity as to the requirements applying to licensees who fall under the supervision of multiple regulatory authorities.

It will take some time for the draft COFI Bill to be finalised. Until then, the licences issued by the FSB will remain in force and the licensing of new entities will continue to take place under the existing financial sector laws, albeit those "old" laws will be implemented by the FSCA.

9.5.3 The possible impact of Twin peaks to the insurer

a) The additional costs in an attempt to comply

One of the biggest qualms the industry has about Twin Peaks is that it will come at a significant cost to the industry, a cost that smaller companies will not be able to easily bare. FSB explains though, before the changes that while implementing the Twin Peaks model will have cost implications, from a market conduct perspective, these costs will be appropriate compared to the size of the financial sector's assets and revenues. The extension of the jurisdiction of the Financial Sector Conduct Authority (FSCA) to all financial institutions including banking, and aspects of the conduct of certain credit providers, means that these institutions will pick up the appropriate portion of these additional costs where resourcing is required to enable their supervision.

b) The costs are necessary

FSB had, before the introduction of FSCA, reiterated that over and above the extension of jurisdiction, the proactive, risk-based, and outcomes-focused approach to regulation and supervision under Twin Peaks will require some different skills at the FSCA which implies additional costs. Possible costs will include, among others, strong research skills, data analytic capability, Fintech capability, and the use of Fintech to supervise and regulate just as a few examples. These initial costs however should be justified over time by greater efficiencies and embedment of appropriate risk-based supervision, which for many will result in an alleviation of costs but not responsibility.

The insurance industry’s concern is that the regulator has still not discussed how these costs were to be covered. One would think that this cost would be passed onto insurers in some way, shape, or form. Insurers are already under pressure when it comes to increasing costs. How much more can they take before it is passed down to clients?

c) Broker and adviser impact

By all accounts, brokers, advisers, and insurers are in for a significantly changed environment when Twin Peaks is finally implemented. What does this mean for advisers, brokers, and insurers? If we read between the lines of the FSB comments regarding the cost of Twin Peaks, there will be some increased costs in the industry. Whether the FSB can absorb this cost without pushing it onto insurers remains to be seen. What may be an impending reality is that these costs will be filtered down to insurers who would have to decide whether they can absorb the costs.

9.6 The SAIA Code of Conduct

The SAIA and its members are committed to actively contribute to the principles of sustainable insurance practices. This is to ensure that the South African short-term insurance industry remains relevant, inspires confidence amongst its stakeholders, and offers products and solutions that are beneficial to both the economy and society at large. To support these goals, the SAIA Code of Conduct was introduced in 2010 to promote high ethical standards and good business practices in the industry, as well as to give a clear indication of the self-regulatory guidelines followed by members.

9.6.1 SAIA Code of Conduct Complaints Procedure

When a client has a complaint against a SAIA member, the complainant may complain directly with SAIA. *The complaint must however be concerning the transgression of a section of the SAIA Code of Conduct*.

9.7 POPI Act

PoPIA is the Protection of Personal Information Act 4 of 2013. The PoPI Act outlines various conditions that set the minimum standard businesses need to comply with to ensure the protection of an individual’s personal information. Are you aware of how much of your personal information you hand out? Just think about the last time you filled in a form at the bank, or applied for a store account, cellphone contract, or even just joined a website or social media platform.

But have you ever wondered what happens with this information?

That's where PoPI comes in. PoPIA gives clear guidelines on what security systems, policies, and processes any business that collects PI needs to have in place to comply with the new laws. In a nutshell, if a business wants to comply with PoPIA (and face it, they all will need to), they need to collect only the PI that they need to provide their service; they need to have security systems in place to protect the PI they have; and you as the data subject have a right to inquire about what PI they have and keep on you.

9.8 FAIS code of conduct

The General Code requires the following concerning conflict of interest management:	
When a provider (including a representative) renders a financial service the provider must disclose to the client:	The existence of any personal interest in the relevant service. Or of any circumstance which gives rise to an actual or potential conflict of interest concerning the service. And the provider must take all reasonable steps to ensure fair treatment of the client.
Non-cash incentives offered and/or other indirect consideration payable by another provider, a product supplier, or any other person to the provider could be viewed as a potential conflict of interest.	

a) Disclosure of Product Supplier Information

A provider other than a direct marketer must at the earliest reasonable opportunity, and only where appropriate, furnish the client with full details of the following information about the relevant product supplier and, where such information is provided orally, must confirm such information within 30 days in writing

b) Disclosure of FSP information

Where a provider other than a direct marketer renders a financial service to a client, the provider must at the earliest reasonable opportunity furnish the client with full particulars of the following information and, where such information is provided orally, must confirm such information within 30 days in writing: (if a transaction was concluded).

c) Disclosures of Commission

Clients must be advised of the commission payable in respect of financial products or services in rand value/amounts where possible:

d) Disclosures of Product Suppliers and FSP Information

Not only must FSPs ensure that there is adequate disclosure on product suppliers, FSPs, and commission; but there should also be adequate disclosure about the products being offered to clients. This is to ensure that clients are provided with adequate information on financial products.

e) Information/Disclosure about Financial Service

General Code of Conduct Section 7

Subject to the provisions of this Code, a provider other than a direct marketer, must –

(a) provide a reasonable and appropriate general explanation of nature and material terms of the relevant contract or transaction to a client, and generally make full and frank disclosure of any information that would reasonably be expected to enable the client to make an informed decision.

(b) provide contractual information and any material illustrations, projections or forecasts

(c) provide, where applicable, full and appropriate information

Requirements when Custody of Financial Products and Funds Occur

Separate bank account	• The FSP must have a separate bank account at a bank, designated to receive funds and premiums from clients, which is separate from any other funds, except a short-term insurer that complies with Section 45 of the Short-term Insurance Act. • The FSP is responsible for bank charges except for the charges that relate to deposit or withdrawal, which the client must pay. • The FSP must pay all interest accumulating in the account to the client or owner of the funds.
Receipt of funds	• When the FSP receives funds from a client, without a bank being involved, it must issue a written confirmation when the money is received. • The money must be paid into the bank account within one (1) business day of receipt.
Receipt of documents	• When title documents are lodged with an FSP on behalf of a client, the FSP must issue a written confirmation when the documents are received, indicating a description of the documents so that they can be identified.

Safeguarding	• If the FSP or a designated third party receives funds or financial documents, reasonable steps must be taken to ensure that they are adequately safeguarded and that: ○ the funds or financial products are dealt with according to the ○ client's mandate. ○ the funds or financial products are easily distinguished from the FSPs funds or assets. ○ The client has easy access to an amount paid into the separate account, less all relevant deductions but subject to other applicable laws. (For instance, if the funds are proceeds of crime, money-laundering legislation may prevent the client from access it).

f) Advertising

The General Code requires that FSPs or representatives must adhere to certain advertising principles.

Advertisements must not contain any statement, promise, or forecast which is fraudulent, untrue, or misleading.	
Advertisements which include	Performance Data must include references to their source and date
Advertisements which include	Illustrations, forecasts or hypothetical data must: • show support through clearly stated basic assumptions with a • reasonable prospect of being met under current circumstances. • make it clear that they are not guaranteed and are provided for • illustrative purposes only. • Show dependence on the performance of underlying assets or variable market forces, where applicable.
Advertisements which include	A warning statement about risks involved in buying or selling a financial product must be identified as a warning statement
Advertisements which include	Information about past performance must also have a warning that past performances are not necessarily indicative of future performances.

- If the investment value of a financial product mentioned in the advertisement is not guaranteed, there must be a warning that no guarantees are provided.
- Where a Provider Advertises a Financial Service by Telephone

An electronic, voice-logged record of all communications must be maintained

g) Direct Marketing

In the General Code of Conduct, the term “direct marketer” means a provider who, in the normal course of business, provides all of the predominant parts of the financial services concerned in the form of direct marketing i.e. anything financial product or financial service sold directly to the customer typically through a contact centre.

The General Code requires that direct marketers adhere to certain advertising principles.

When a direct marketer provides a financial service to or on behalf of a client, it must provide the client with the following information at the first reasonable opportunity

h) Handling Complaints

The Code of Conduct addresses how complaints are to be handled by the FSP as required by the General Code of Conduct for FSPs and Representatives

CHAPTER 10: THE IMPACT OF ECONOMIC CYCLES ON STI

Learning Outcomes

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

- Identify and discuss the various stages of an economic cycle
- Explain how each of the stages of the cycles has an impact on the business of insurance companies
- Discuss the main economic indicators such as inflation, low growth money supply and exchange rate have on the activities of insurance companies.

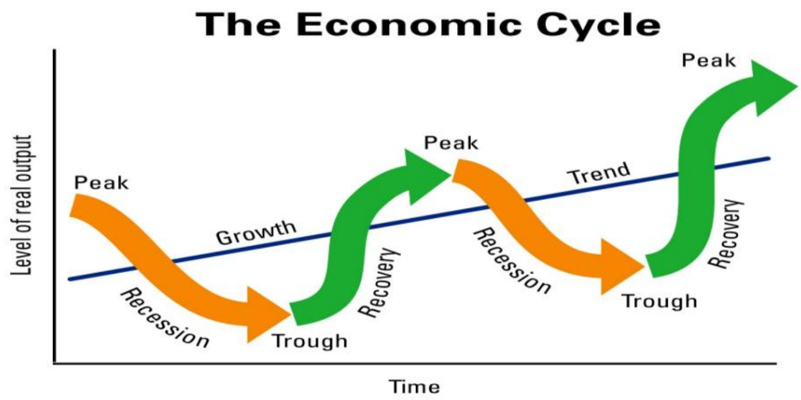
Introduction

Insurance, just like any other industry is affected by events and indicators in the macroeconomy of the country. This is because of the interdependencies in the economy. For example, the effect of inflation on insurance companies is that the renewal of the same number of exposures in future years generates higher written premiums. In the long run, insurance costs will keep pace with the rate of inflation, even though in some years insurance will exceed or lag the overall inflation rate.

Where there is slow economic growth, insurance is also affected in that many consumers will not afford to purchase insurance leading to low business for the insurers. In tough times, consumers generally remove insurance from their budgets as it is largely perceived as non-essential for survival.

10.1 What is the economic cycle?

www.investopedia.com defines the economic cycle as the natural fluctuation of the economy between periods of expansion (growth) and contraction (recession). Factors such as gross domestic product (GDP), interest rates, levels of employment, and consumer spending can help to determine the current stage of the economic cycle. Business cycles or economic cycles are identified as having four distinct phases: expansion, peak, contraction, and trough.



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An expansion is characterised by increasing employment, economic growth, and upward pressure on prices. A peak is realised when the economy is producing at its maximum allowable output, employment is at or above full employment, and inflationary pressures on prices are evident. Following a peak an economy, typically enters into a correction that is characterised by a contraction, growth slows, employment declines (unemployment increases), and pricing pressures subside. The slowing ceases at the trough and at this point the economy has hit a bottom from which the next phase of expansion and contraction will emerge.

	PHASE OF BUSINESS CYCLE			
INDICATOR	**TROUGH**	**EXPANSION**	**PEAK**	**RECESSION**
Interest rates	*Falling*	*Starts to rise after a long time*	*climbing*	*Reach the highest point and then start falling*
Stock prices	*Starting to rise*	*Rising, perhaps rapidly*	*Still climbing*	*Falling*
Consumer price	*At its lowest*	*Rises after a slow start*	*The sky is the limit*	*Falling*
Business profits	*Falling*	*Rising*	*Continues to rise*	*Falls after the other factors have fallen*
Consumer spending	*At its lowest*	*Rising, especially on expensive*	*rising on all items*	*Falls*
Industrial production	*At its lowest*	*Rises*	*Rising to its highest point*	*Falls*

Housing construction	*About to go up*	*Rises, more than the other phases*	*Rising to its highest point*	*Falls*
Business investment	*At its lowest*	*Rises, though less than other phases*	*Still climbing*	*Rises at first, then falls*

10.2 Impact of a recession to the insurance industry

a) A decrease in market share and revenue levels

A cooling economy and reduced spending tend to limit growth in South Africa's insurance industry ultimately leading to a decrease in the market share and revenue levels. The continued difficulties that are presented in this cycle lead to a narrowed demand for insurance products as household discretionary spending levels remain static or fall also causing businesses margins to tighten as well.

b) Pricing pressures

Revisions in pricing, combined with weaker demand, could also spark higher levels of competition during this period, with increasing pressure on smaller underwriters with less capital than their larger rivals. Insurers need to strike an effective balance between the pricing of premiums and retaining policyholders.

Decreased growth in the industry generally pushes premiums lower. In an already price-sensitive market, it's an easy win to gain market share, but at the expense of margin squeeze and a race to the bottom.

c) Increase in insurance costs

A recession drives day-to-day costs and claims cost up due to inflation and the Rand that weakens during such times.

d) Reduced insurance products demand

As previously discussed in previous chapters, during hard economic times, cash-strapped households and businesses have a weaker ability to fund insurance premiums and therefore view insurance as a grudge purchase. Reduced demand forces South African underwriters to work harder to retain market share and secure new clients, with the more competitive market likely to push down profit rates. Business owners will need to keep their cover as comprehensive as possible and avoid the temptation to cancel essential covers such as business interruption insurance, liability insurance, and SASRIA cover.

e) Product development

Insurance companies also take advantage of a recession and employ their innovative skills in creating new products and new insurance solutions. For example, with very low penetration in the vehicle sector, insurers who devise products specific to the needs of the uninsured can see growth during this hard time.

f) Increase in car parts

If the exchange rate is unfavourable, for the short-term insurance industry, in particular, this means that the cost of motor parts, which are mostly imported, will increase exponentially, which is likely to lead to increased repair costs followed by increased premiums for policyholders.

g) Possibility of underinsurance

Following an increase in interest rates, business owners with loans experience additional pressure on their already high business costs and will have to manage the business' finances with far more discipline, leading to reduced spending. Pressure due to financial constraints may business owners wrongly consider decreasing their insurance coverage to save money. This could end in a situation where the business is underinsured at the claim stage, negatively affecting their ability to recover from any loss or damage. However, being underinsured as a business owner could mean an inability to continue business operations should it suffer a loss or damage event.

10.2.1 Impact to the engineering class of business

Lack of economic growth dries up and stalls new construction and infrastructure projects and ongoing projects. Banks become reluctant to release loans, if they do, the limits are less than what was agreed upon before the economic downfall. This impacts new business for CAR (Contractors' All Risks), EAR (Erection All Risks), Machinery Breakdown and Equipment Insurance, forcing the insurance industry to live without large premiums from project insurance for some time

10.2.2 Impact on property insurance

Continued recession impacts on property class of business too. Cost-cutting in the corporate sector may lead to reduced expenditure on insurance. Falling market prices of property bring down the premium volume on property insurance. A decline in property sales forces insurers to reduce the premium charged on mortgage insurance and householders' insurance thereby collecting less of premium income.

10.2.3 Impact on Accident and Health policies

A decline in traffic which is normally witnessed by less travel through airline companies impacts travel insurance premiums.

10.2.4 Impact on transportation insurance

Reduced international trade affects marine cargo and marine hull insurance businesses as premium income from these products drops substantially.

10.3 Demand and supply in insurance

Among all the factors of influence, income is essential in all the models of insurance demand. Higher income is expected to increase the demand for insurance.

There is a positive relationship between income and expenses for short-term insurance. Higher-income levels a positive relationship between income and expenses for property liability insurance.

The consumption of insurance products may vary across the lines of business and individuals; for example, motor insurance is dominant in the short-term insurance market, especially in emerging markets.

Education is a demographic determinant that is expected to have a positive impact on insurance demand. In the academic literature, the level of education in a country is used as a proxy for risk aversion, but there are differences in the results obtained for short-term insurance. Individuals with higher education generally have higher incomes and tend to purchase insurance. This is because they are, firstly, more informed and secondly, they can afford it.

10.4 Innovation in insurance

Traditional insurance business models are being challenged by new thinking, new competitors, new ways of working, and new challenges. Insurers are already under pressure to change now. The next wave of macro and micro changes – global crises e.g. Covid19, local, industry, and market-specific – promises increasingly complex risks and new, currently unpredictable demand for effective ways to provide resilience in these uncertain times.

Insurance leaders need to seize the upside of this disruption and anticipate and adapt to these emerging needs. Insurers thus need to invest in research and development to ensure that they can always stay on top of the changes and disruptions happening to their businesses.

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