

Cont INSURANCE / ASSURANCE

ADVANTAGES

- * Insurance protects the business person against financial losses.
- * It gives the business person peace of mind because he has transferred the risk to the insurer.
- * The business person may give his full attention to running the business.
- * Policies may be used as security for loans.
- * The insured may obtain a loan from the insurer against certain policies e.g. life policy.
- * Insurance enables the employee to make provision for:
 - a. a pension for his retirement
 - b. the risk of losing his job and being without a source of income.(UIF)
 - c. his dependants when he dies (life assurance)
 - d. medical expenses if he is injured at work (workmen's compensation)
- * Insurance enables the employer to make provision for:
 - a. claims laid against him owing to irresponsible actions of employees (fidelity insurance).
 - b. claims laid against him by employees for injuries sustained during work
 - c. damage and losses caused by employees e.g. theft of money and stock
- * Insurance may be used as a form of compulsory savings.

REQUIREMENTS FOR INSURANCE

- * **Insurable Interest**
 - a. The insurer must have an insurable interest in what he wants to insure.
 - b. The insured must suffer a financial loss of what is damaged or lost.
 - c. The insured must benefit financially from the existence of the insured item.
- * **Examples of Insured Interest**
 - a. a person's interest in his own property.
 - b. a person's interest in his own life.
 - c. a person's interest in the life of his spouse
 - d. a person's interest in the life of his partner
 - e. a creditor's interest in the life of his debtor
 - f. a mortgager in the property of the mortgagee
- * **Non-Insurable Interest**
 - a. the time that elapses between the placing of an order for goods and the delivery of the goods
 - b. Different price levels at different places.
 - c. Changes in fashion.
 - d. New machinery, inventions and techniques
- * **Good Faith**
 - a. The insured and the insurer must be absolutely honest and should disclose all material facts.
 - b. The policy will be null and void if it can be proven that one party did not act in good faith.
 - c. The higher the risk the higher the premium.
 - d. The insured must also take care of the insured Property.
 - e. The insured must claim only for the actual damage.



FIRE INSURANCE

- * **Application for Fire Insurance**
 - a. The customer fills in a proposal form in good faith.
 - b. The insurer may visit the premises to which the application applies.
 - c. The insurer determines the risk based on the information supplied in the proposal form and his observation.
 - d. The insurer then calculates and quotes the premium.
 - e. If the applicant accepts, the first premium is paid by the insured.
 - f. A receipt, known as the cover note is issued for the amount. The cover note serves as a preliminary policy until the fire policy is issued.
 - g. The insurance policy is delivered or posted to the insured.
- * **Factors determining Risk**
 - a. The nature of the building.
 - b. The nature of the business.
 - c. The nature of the adjoining building.
 - d. The availability of fire fighting facilities.
- * **Average Clause**
 - a. This clause stipulates that if the insured property is not insured for its full (real) value all damages suffered by the insured will not be paid out.
 - b. **Over Insurance** - If property is insured for more than its actual value, only the amount of the actual damage will be paid out irrespective of the amount it was insured.
 - c. **Under Insurance** - Goods or property are under insured if they are insured for less than their value. Only a proportional part of the claim will be paid out.
Example: A building is worth R100 000 but has been insured for R80 000 and fire causes damage to the value of R5 000. The amount paid out will be calculated as follows:

$$\frac{R80\ 000 \times R5\ 000}{R100\ 000} = R4\ 000$$
 - d. **Reinstatement** - Most insurance policies contain a clause giving the insurer the option to rebuild or replace property instead of paying out the insured value. This is usually Exercised in the case of over-insurance.
 - e. **Cession** - Transferring the rights in a policy to another person. E.g. a policy on a house may be ceded to the bondholder or a policy against a person's life may be ceded to the bank as security for a loan.



OTHER INSURED RISKS

- * **Storm Damage** - insurance taken out to safe-guard against damage to building and/or contents as result of storm damage
- * **Theft and Burglary** - theft refers to goods taken without permission while burglary refers to forced entry into a premises.
- * **Money in Transit** - covers losses when money is transported between the business and the bank.
- * **Fidelity Insurance** - insurance taken out to cover losses owing to theft by employees.
- * **Vehicle Insurance** - insurance on vehicles to cover theft, hijacking or accident to vehicles.

THE PRINCIPLE OF INSURANCE

- * **Indemnification**
 - a. Applies usually to short-term insurance
 - b. Insurer undertakes to place the insured in the same financial position before the insured event took place.
 - c. Insured is compensated for the actual loss sustained.
 - d. This is done by paying a certain sum of money.
 - e. There is no compensation if the event does not take place.
 - f. The insured is not allowed to profit from insurance.
 - g. The insured may not recover the loss from than one insurer.
- * **Security**
 - a. Applies mainly to long-term insurance.
 - b. The event is certain to occur.
 - c. The amount of the loss cannot be fixed
 - d. It creates security for future as an amount is paid out to Dependants.

COMPULSORY INSURANCE

- * **Workmen's Compensation**
 - a. Compulsory for certain workers.
 - b. Compensation paid after accident at work.
 - c. Contributions are paid by the employers.
 - d. Also safeguard employer against claims from employees.
- * **UIF (unemployment Insurance Fund)**
 - a. Compulsory for certain workers.
 - b. Employer and employee contribute to fund.
 - c. Person may claim during periods of unemployment.
- * **RAF (Road Accident Fund)**
 - a. Income is collected from levy on fuel.
 - b. **Purpose:** - Compensate only for bodily injuries
- Protects negligent drivers against claim
 - c. Does not cover property.
 - d. Some drivers may not be covered e.g. Driver under the influence of alcohol, car is stolen and driven negligently, when car is taken without consent, when driver does not have a valid licence.

Task: What are the benefits and disadvantages of a RA?

PROFESSIONALISM & ETHICS

LO3AS3

Discuss and debate how professional, responsible, ethical and effective business practice should be conducted in changing and challenging business environments.

LO 3 AS 4

Reflect on situations and activities and make recommendations for improvement.

1. CONCEPTS

* **Ethics:** is the study of morality. If one acts ethically, one is conforming to accepted professional standards of conduct which regulate right and wrong. Business Ethics is the focus on values and conduct in the business environment. It relates to the individual within a business as well as the way in which the business conducts itself.

Ethics can be divided into three main categories:

- o general business ethics
- o professional ethics
- o international business ethics

So ethics is about making decisions relating to personal actions while from a management perspective, it is about making decisions on behalf of others in the organisation and outside the organisation.

* Professional Ethics

This will relate to the various functional areas of the business and the manner in which these areas operate. Professionalism is linked to values. A professional code of conduct is established in an organisation to which all staff members must adhere. A professional code of conduct is actually written rules to guide professional behaviour.

2. THE RELATIONSHIP BETWEEN ETHICAL AND PROFESSIONAL BEHAVIOUR

A strong relationship exists between ethical and professional behaviour. While ethical behaviour looks at principles of right and wrong, professional behaviour refers to things such as showing respect towards others, being responsible and reliable, and producing good quality work. Professional behaviour usually results in ethical behaviour.



3. CHALLENGES TO ETHICAL AND PROFESSIONAL BEHAVIOUR

* Taxation

The business is responsible for collecting taxes such as SITE, PAYE and VAT on behalf of SARS. If a business fails to do this, SARS can recover the amount from the business in addition to interest and a penalty.

Tax avoidance is a legal way in which a business or an individual may reduce the amount of tax payable to SARS. Tax evasion refers to a situation or an individual or business uses illegal means to reduce their taxable income. This could include concealing information or claiming expenses that have not been incurred. It must be remembered that while it is illegal, it is also unethical not to pay tax. Non-payment of tax may result in a fine or imprisonment.

* Sexual Harassment

The Labour Relations Act of 1995 defines sexual harassment as "unwanted conduct of a sexual nature". It is an unprofessional and offensive conduct that involves unwanted sexual advances where unequal power or authority exists.

The following are examples sexual harassment:

- A. Physical contact:** unwanted physical contact that may range from touching to rape
- B. Verbal Abuse:** unwanted comments with sexual overtones; sex-related jokes or insults; inappropriate enquiries about a person's sex life are some instances of verbal abuse.
- C. Non-Verbal Abuse:** includes unwelcome gestures; indecent exposure and the display of sexual explicit pictures and objects.
- D. Harassment by Non-Employees:** It is inappropriate for people such as customers etc to indulge in sexual harassment. The business will be held responsible if they are aware of such situations and take no actions against the culprits.
- E. Quid Pro Quo Harassment:** This occurs when a person from a business demands sexual favours in return for certain benefits such as employment, promotion, salary increment etc

A formal written policy on sexual harassment and disciplinary procedure is essential for all business in order to manage such situations. All members of staff must be made aware of this policy.

* Unfair/Misleading Advertising

Some businesses make use of unfair and misleading techniques for advertising their products. This is done in order to make the consumers believe that they will get more value than they actually do. Unfair advertising is unethical.

There are different groups of unfair advertising practices:

A. Deceptive Pricing:

- * Some businesses claim that a product is on sale at a lower price yet there is little difference compared to the normal price.
- * The term "special price" is used when the articles are not sold at a reduced price and can also be regarded as deceptive pricing.

B. Deceptive Promotion

- * This occurs when the advertiser provides information regarding a product performing in a way that it cannot.
- * Some dealers advertise sale items that are not actually available in order to attract customers to their stores.
- * Another example of deceptive advertising is where an item is advertised at a good price in order to attract buyers to the store. When the buyer comes to the store he is dissuaded from purchasing that particular product and is encouraged to buy another at a higher price.

C Deceptive Packaging

Examples are:

- * false descriptions about the product on the package using a package similar in size to that of a competitor yet the contents are less than that of the competitor.
- * failing to indicate the health dangers of a product on the package

Protecting Consumers against Unfair Advertising

- a. The Advertising Standards Authority (ASA) regulates advertising in the public interest and ensures that the content of advertising meets the requirements of the Code of Advertising Practice.
- b. The Unfair Business Practices Act of 1998 regulates any unfair business practices.
- c. Pressure groups and non-government organisations (NGOs) protect consumers against unfair and misleading Advertising.

* Pricing of Goods in Rural Areas

Entrepreneurs in rural areas blame the lack of infrastructure for the prices they charge for goods. Since some rural areas are remote, goods are scarce and the market mechanism of high demand and low supply tends to push prices up. The lack of competition in rural areas among dealers can also lead to higher prices.

* Unauthorised Use of Funds

The unauthorised use of funds refers theft or fraud. This can have a dual effect:

- o reduce the profits of the businesses
- o reduce the ability of businesses to increase the salaries of employees. In the main, funds are abused by members of management. Crimes of a financial nature are referred to as White-collar crime. This can have an impact on the morale of the staff. In South Africa the Scorpions was established to investigate financial crimes. The unauthorised use of funds is an unethical practice and it is the function of management to prevent this form of corruption (dishonest and illegal behaviour by people in positions of power). Besides the management team setting an example for others to follow, they also need to put measures in place to prevent fraud and corruption in a business.