LEARNER GUIDE

Unit Standard Title:	**Apply Knowledge of Insurance of Household Contents**
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Apply Knowledge Insurance of Household Contents

Introduction

This module explores household contents cover and provides a brief overview of all risk for the purposes of comparison. To fully understand the content we need to briefly look at some concepts:

A client transfers the risk of financial loss to an insurer, in return he pays the insurer a premium. The premium is determined in accordance to the risk presented. To determine this risk, the insurer does an underwriting exercise.

- What is underwriting?
  - Series of questions to
  - Help assess a risk scientifically
  - In order to determine whether to accept or not accept (reject) a risk that is offered, and if the risk is accepted, what terms, conditions and premiums are to apply.
  - Premium
  - Conditions of the risk

In addition to exploring household contents insurance, we will also briefly touch on a number of other factors which may have an effect on contents cover and the risk presented by the client. These include a brief look at legislation and the responsibilities brought upon us by this as well as taking a look at liability to other parties and how insurer's protect their clients against these types of risks.

Module 1

Describing the cover provided under Household Contents Insurance

This Module deals with:

- The concepts of the insured and insured property with examples
- Analysing a policy document in order to determine the insured events
- The concept of accidental damage as opposed to accidental breakage in household contents insurance with examples
- The exclusions in a listed perils policy wording compared to the exclusions in an all risks policy wording
- The limitation on cover for computers provided under household contents insurance with reference to a specific policy
- The two bases of indemnity with examples

In order to understand contents the following analogy can be made, "contents are something contained in a receptacle". Everyone who has personal possessions has the need to insure them so that they can replace them should something happen to them. The possessions would be the "something" and the house would be the "receptacle".

1.1 The insured and insured property

In terms of contents cover the insured is typically the person named in the schedule as the policyholder, as well as any members of his family who permanently reside with him. Some insurers substitute the word "family" with household members. What is important is that they are living with the insured. Another important factor is that there should always be a financial or legal relationship between the insured and the items insured. Meaning that he will suffer financially if a loss occurs. We call this, insurable interest. If an individual living with the insured does not require cover for his possession however, this needs to be noted on the policy to prevent possible underinsurance problems at claims stage.

The contents section of the policy covers the movable possessions of the insured at the address that will be noted on the schedule. Most policies will cover possessions inside of the house and any outbuildings. The intention of contents cover is to cover household goods and personal possessions either belonging to or for which the insured is responsible.

Examples of contents items:

- Fridge
- Television
- Microwave
- Dining room table
- Lounge suite, et cetera

Where items are stolen from the outbuildings visible signs of forced entry will normally be a requirement. Some insurers will cover money under contents, but this is provided as a bonus benefit and cover will be strictly limited, as well as require visible signs of forced entry to the insured premises.

Under certain circumstances items that will be attached to the building may be covered as contents.

Example of a fixture and fitting covered under contents cover:
A tenant who rents a house will not normally take out buildings cover, but may have an item like a satellite dish which the tenant owns but is fixed to the landlord's building. In situations like this some insurers may cover the satellite dish under contents cover.

Under contents cover a tenant would normally be covered for accidental damages caused to a landlord's fixtures and fittings. This will be covered under "tenant's liability" and is explored in more detail later on.

Some insurers will allow for and cover certain contents items used for select business purposes. This will mainly be limited to office administrative type work. Items like a fax machine or personal computer used at home for business purposes would be covered. This cover will not cover a full business operation being run from a home and as soon as the business alters the risk, the insurer will require the insured to take up business insurance.

1.2 Insured events

Whilst every policy may vary in the cover that it offers, most insurers will be consistent in the events for which they provide cover under the household contents section. Insured events, also referred to as perils, are the events for which the insurer is willing to indemnify the client should the event result in a loss.

Some of the most common insured events / perils listed in the household contents section are:

- Fire, lightning, explosion, thunderbolt and earthquake
- Wind, water, flood, storm, hail and snow.
- Damage resulting from the bursting and overflowing of geysers and water pipes.
- Theft
- Power surges
- Impact
- Accidental breakage
- Subsidence and landslip (limited cover)

1.3 Accidental breakage in household contents insurance

Accidental breakage under a contents policy is limited to television sets, mirrors and glass forming part of any furniture. No other contents items will be covered if accidentally broken.

Example:
A client decided to dust under his TV set and lifted it to move it to a nearby table. Whilst walking with the TV the client slipped on a loose mat and the TV crashed to the ground. The broken screen in this case would be covered.

Of late, some insurers have chosen to include accidental damage cover in the contents section on a blanket basis, but limit the amount of cover provided. This ensures cover for accidental losses on other contents as well.

1.4 Listed perils policy wording versus an all risks policy wording

A listed peril policy refers to a policy where the insurer describes the events that they are prepared to provide cover for (as explored under subsection 1.2 insured events). This means that an event is only covered if it is listed or defined in the policy wording. The insurer will then include several exclusions restricting cover further. E.g. Earthquake as a peril will be listed and therefore loss as a result of earthquake is covered, but the exclusions might state that earthquake due to underground mining activities is excluded.

Other examples of exclusions for a listed peril policy include:
- Wear and tear or gradual deterioration
- Inherent defects
- Damage by vermin such as rats, mice or termites

An all risk policy wording is also often referred to as a policy of exclusions. This means that the cover provided simply states "any loss or damage" to insured items will be covered, but will eliminate certain losses by listing exclusions. The all risk section of the policy wording provides much wider cover and is usually recommended for items of high value or which may be at a higher risk for loss not ordinarily covered by a standard listed perils policy.

Examples of exclusions found in an all risk policy wording will be similar to the ones found in a listed perils policy, but will also include exclusions such as:
- Items in an unattended vehicle to kept in a locked compartment
- No cover for sports equipment whilst in use
- Limits on cover of jewellery unless a valuation certificate is provided

1.5 Limitation on cover for computers provided under household contents

Some insurance companies place limitations on the cover available for computers. Examples of limitations/exclusions for computers used for private purposes may include the following:
- Electrical or mechanical breakdown
- Recovery of Data
- Business use – Some insurers provide limited cover, but will require the insured to take up a business policy should the activities of the business alter the risk.
- Computer viruses

- Portable electronic equipment – some insurers do not provide cover for these items under household contents and they must be specified under an all risk policy.

Recently, more and more insurers opt to create an additional section to insure household computers, thus allowing them to provide more specific cover for these items.

1.6 The two bases of indemnity are explained with examples

There following are two bases of indemnity that insurers make use of:

- New for old
- Market value

When items are covered for the current replacement value it means the items will be covered for the amount it will cost an insurer to replace them with a new item at today's prices, this is referred to as new for old. With contents cover insurers will require the client to cover the contents for its total current replacement value. This is done to ensure the client is not underinsured and that indemnification can take place.

Even though this is not indemnifying in its true sense the following serves as an example of being covered for the current replacement value of an item.

Example:
A client has a 2002 TV, which he bought for R2,000. Today it will cost the insurer R4,000 to replace the 2002 TV with a new one of the same specification, which means the client needs to cover the old TV for R4,000. The client will be paying a premium on R4,000, but in the event of a claim the client will receive a brand new TV.

The other form of indemnity that some insurers may use is called market value. This would typically refer to the resell value of an item if you would had to sell it in its current state and condition. On this basis the insurer will usually settle with the insured for a cash value.

In practice clients will often be unhappy when covered for market value because they will be paid out an amount that will not be enough to replace the item with a new one of the same specification. In our example of the television for instance, the client might receive R1,500 for his television, considering that he bought is for R2,000 and would not be in the same condition as it was when purchased. The client would only be able to afford a much smaller and probably less reliable brand of television meaning that he would not be in the same position as he was before the loss.

While the "new for old" system is not a true form of indemnification, it does result in happier clients as they will be able to replace their lost/damaged items and the insurer would have received a premium based on the new replacement value.

Module 2

Extensions

This Module deals with:

- Optional covers that can be added to or excluded from a household contents insurance policy with examples
- Analysing a policy document to determine the extensions and exclusions
- Comparing two different policies in terms of cover
- The concept of territorial limits in household contents insurance with reference to permanent and temporary residence and an indication is given of how this applies in a listed perils policy

2.1 Optional covers under a household contents insurance policy

All insurers will have optional covers, which can be taken to supplement standard contents cover. These may however differ from insurer to insurer. Clients will need to pay an extra premium when taking out any of the optional covers.

Examples of optional covers under the contents section of a policy wording:

- Theft cover for unoccupied buildings
- Goods used for business purposes
- Theft of contents being transported
- Theft from buildings unoccupied for longer than 60 consecutive days
- Extended liability

These covers may be requested by the insured, but will only be added at the discretion of the insurer and as previously mentioned, will result in additional premium.

2.2 Extensions and Exclusions

2.2.1 Extensions

Besides the insured events and optional covers mentioned above, many insurers provide cover for certain “bonus benefits” subject to specific limits. These are automatically included over and above the basic contents cover. Unlike with optional cover, these automatic extensions do not affect the premium and in most cases will have no excess. These automatic extensions will however be subject to very small limits of indemnity.

Example:
Theft of:

- Garden and leisure equipment
- Guest’s property
- Clothes stolen from the washing line
- Domestic employees’ contents at the address noted on your schedule
- Groceries from a vehicle

- Hole in one cover

Other events:
- Spoiling of the contents of a fridge or freezer following a power failure
- Fraudulent use of credit-, cash- and account cards, except fraudulent use by members of your household
- Veterinary costs resulting from a motor accident in which your household pet is injured
- Compensation for the death of a spouse caused directly by a fire or theft at your home
- Loss of or damage to locks, keys and remote controls for your home

Other automatic extensions offered by insurers may relate to “home assistance” benefits such as plumbers, locksmiths and security.

2.2.2 Exclusions

All policies will have exclusions on the cover. Exclusions are very important to both the insured and the insurer, as there might be no cover if they are the proximate cause of the loss. Policies have general exclusions applying to the entire policy, as well as exclusions that are relevant to each section. An insured will need to be aware of both sets of exclusions.

Most policies will exclude loss or damage arising from theft, whilst the building is sub-let or let unless there is forcible and violent entry. Typically damage caused intentionally by the insured or with his collusion will also be excluded.

Other exclusions may relate to the following:
- Money
- Vehicles and vehicle parts or accessories
- Wear and tear and gradual deterioration
- Damage caused by household pets
- Damage caused by vermin such as rats, mice and termites

The above exclusions are an indication only and are in no way a comprehensive list of exclusions under a typical policy. It is therefore important for an insurance advisor to be able to identify and interpret these exclusions to a policyholder.

2.3 Comparing different policies in terms of cover

It may often be necessary to be aware of and compare cover offered by different insurers.

It may be worth your while to research different policy wordings on the internet to compare the cover provided by each.

The following websites have copies of policy wordings:
- www.mf.co.za
- www.outsurance.co.za

HOUSEHOLD GOODS
Provides cover for the Household Goods against various occurrences as defined:
Cover:
The contents of your home are covered against:

- Theft
- Fire, Lightning, Explosion
- Storm
- Earthquake

The contents are covered for their current replacement cost providing the sum insured represents the total value of all contents at current replacement values.

No Claim Bonus (Claim Free Group)
For every year that you do not claim you will be entitled to a No Claim Bonus that provides you with a reduced monthly or annual premium. Allsure makes provision for Claim Free Groups 1 – 10 years.

Automatic Extensions of Cover
There are certain automatic extensions of cover that include:

- Accidental Death Cover
    - Persons over 18
    - Persons under 18
- Business Goods
- Trauma Cover
- Personal Liability(Occupants Risk)
- Money

Optional Cover

- Accidental Damage to Household Goods: Options of cover: R10 000, R25 000, R50 000 and R100 000.
  The above options are provided at a minimal additional premium.
- Fire & Perils option
  This option allows you to exclude all theft cover and certain extensions.
  This cover may be chosen if you believe that your theft risk is minimal and it brings about a reduction in premium. Mutual & Federal however would always recommend you take full cover due to the uncertainties of life and the experience built up over the years of providing for the needs of our clients.
- Reduce your premium by selecting a Flat First Amount Payable of up to R25 000.

First Amount Payable
R250
Other Compulsory First Amounts Payable will be indicated on the policy schedule.

2.4 Territorial limits in household contents insurance

Territorial limits refer to the geographical areas where the insurer provides cover. Should cover be required outside the territorial limits stated in the policy then the client must notify the insurer to enable them to consider extending the cover. The countries outside of South Africa included in the territorial limits usually include:

- Namibia
- Botswana
- Zimbabwe
- Zambia
- Malawi
- Mozambique
- Swaziland
- Lesotho

It must be noted that these extended territorial limits are only applicable to items temporarily removed from South Africa. Each insurer will specify a time limit which they view as temporary. Once the insured permanently relocates to one of these territories outside of the borders of South Africa, they will be required to take up insurance in the new country of residence.

Module 3

Limitations and Exclusions

This Module deals with:

- The difference between accidental damage and breakage covered under household contents and all risks insurance with reference to the best type of cover for valuable goods
- Identifying the limits on collectables in a specific policy and giving an indication as to the best insurance for these items
- Explaining the cover on household goods in transit with reference to a specific policy
- Analysing the needs of a specific client and the limitations of a specific household contents insurance policy and making suggestions for additional cover to meet the needs in the client's circumstances
- Analysing a policy document to determine factors that could affect the limit of indemnity and giving an indication of possible extended liability cover
- The consequences of giving incorrect advice in terms of FAIS, Policyholder Protection Rules and Professional indemnity

Under Contents cover the client is only covered for limited accidental breakage. Cover is limited to television sets, mirrors or glass forming part of any furniture.

3.1 Contents vs. All Risks and the best cover for valuable goods

As mentioned in previous sections, all risk cover provide accidental loss and damage cover which provides cover on a much broader basis. The contents section simply covers accidental breakage which only includes breakage of television sets, mirrors and glass forming part of furniture.

As the cover provided by the all risk section is significantly broader and because of the fact that it also provides worldwide cover and not only at the insured premises, it is significantly more expensive in comparison to the basic cover provided under the Household Contents section. Needless to say, clients will therefore be more inclined to try and insure certain valuable items under the contents section rather than specifying them.

However, due to the limited cover provided in respect of accidental breakage under the contents section, it would be advisable for clients to rather specify these items in order to enjoy broader cover and not be found in a situation where they are without cover should a loss occur.

Items covered under Contents are only covered if a covered peril occurs at the address noted on the schedule, whereas items covered under all risks will be covered worldwide.

With all risk cover the excess payable is normally considerably less as it is applied per item and not on a holistic figure meant to represent the entire contents of a household.

Clearly a policyholder does not require cover under both contents and all risks. When calculating the contents sum insured the policyholder should subtract the value of the all risks items, from the total value of all household contents.

3.2 The limits on collectables

Collectables can either be seen as collections or rare or valuable items.

Example:
If a client owned a coin or stamp collection this will be seen as a collectable and depending on the policy the client may only find very limited cover. A client with an antique chair may also be seen to have a collectable. Even though the client does not have an entire collection of chairs the age and scarcity of the item makes it a collectable. In the case of the chair this will definitely form part of the client's contents cover. Problems may however arise at claims stage if the client did not cover it for the right value. Valuation certificates from an appropriate source and photos of the item will come in handy at claims stage.

Most insurers tend to limit the cover provided for these items as the values tend to be very high and replacement of these items may at times be impossible due to the scarcity and special qualities usually associated with collectables. In many cases insurers exclude cover for stamp and coin collections unless these are specifically noted in the schedule.

Other collectable items which may be subject to limits include:

- Jewellery
- Precious stones and metals (for instance gold coins)
- Persian rugs

This will form part of the insurer's specific underwriting criteria. This limit is generally either 25% or 33.3% of the total current replacement value. Many of these items may be covered under the all risks section, which means that they don't need to be included in the contents cover.

Collectables that are stored in a bank vault will also normally be covered under the all risks section as they are out of the home.

3.3 Household goods in transit

The cover offered by insurers for goods in transit will vary. Some insurers may cover damage to goods in transit, but only limited to damage to contents resulting from the vehicle carrying the goods overturning or being involved in a collision. No chipping scratching or denting of the articles during loading and offloading will be covered.

Theft while in transit is excluded, but in most cases can be added at an additional premium.

When items are moved to a new permanent address their vulnerability and exposure to theft increases and as such this additional cover should be recommended.

3.4 Determining the needs of a specific client and making suggestions for additional cover

During the conversation with the client it is important that the advisor analyses the needs of the client and suggests possible additional cover based on the analysis.

Example 1:
If a client places a holiday home on cover (this is a question that is asked as part of the underwriting) then it is the advisor's responsibility to offer the client the extended theft cover (theft cover for unoccupied buildings) as well as to inform the client of the condition for theft (visible signs of forced entry).

Example 2:
If the client says that there are business activities at the risk address (this is also a question that is asked as part of the underwriting) the advisor must probe to find out what these activities are. Let's say for instance the client is a graphic designer that works from home, and she has a computer, plotter, printer and fax machine, the advisor must inform the client that these items will not be covered under the standard contents cover, and that the client would need to take the optional cover for "goods used for business purposes" in order to enjoy cover.

3.5 Factors affecting the limit of indemnity and possible extended liability cover

Throughout the learner guide we explored several instances where insurers limit their indemnity to the insured.

In this section we will therefore only briefly highlight these factors.

- Listed perils – Indemnity is limited to losses caused by listed perils only.
- Excesses – The insured will be responsible for a first amount payable which will serve to eliminate small unnecessary claims as well as ensuring the insured take due care as they will also be affected financially by the loss.
- Accidental breakage – indemnity is limited to breakage of television sets, mirrors and glass forming part of furniture.
- Collectables – Collectables items insured under the contents section are limited in terms of the amount claimable, usually between 25% to 1/3 of the total sum insured.
- Risk address – indemnity under the contents section will only apply to losses occurring at the insured premises.
- Goods used for business purposes – indemnity for these goods will be limited to a percentage of the total sum insured and in the event that the business activities alter the risk, business cover will be required and the personal policy will no longer respond.
- Exclusions – various exclusions limit the insurer's liability to the insured in the event of losses resulting from the subject of such an exclusion.
- Automatic extensions / Bonus Benefits – the insured is limited to the insured amount stipulated by the insurer.

In the case of liability cover the insurer will limit their liability by adding exclusions as well as providing the insured with an overall limit. In many cases, this limit will need to be increased in order to ensure sufficient cover. We will however explore liability cover in more detail in a later section.

3.6 The consequences of giving incorrect advice in terms of FAIS, Policyholder Protection Rules and Professional Indemnity

If the advisor deals with client money (collecting premiums) an intermediary guarantee fund policy should be in place to protect client premiums.

Implications to the representative and the Financial Services Provider of non-compliance with the requirements of FAIS and other acts:

- Court action may be instituted against any person for non-compliance or contravention for payment of;
  - compensation for losses of other person/s due to the act or omission
  - a penalty not exceeding 3 times profit or loss that might have been gained without the act or omission
  - interest
  - costs

A provider who is found guilty of a contravention of the Act may be fined up to R1,000,000 or 10 years imprisonment or both.

Where there is a likelihood of a contravention of the Act, the regulator may apply for a court order restraining continuation, omission or commission of the act and an order for the provider to take remedial steps to rectify the act or omission. The FSP may also have their licence suspended or withdrawn, depending on the severity of the transgression.

In the event that a key individual or representative is found guilty of a contravention, they can be debarred. This would mean that the person could not work for an FSP by rendering financial services/giving advice.

Judgements or decisions against an intermediary or a representative would be published on the FSB website and associated parties, such as an employer or another FSP, would be required to take steps to ensure that all other clients of the guilty parties have not suffered losses because of the guilty person.

The Policyholder Protection Rules

Before the introduction of FAIS, these rules - promulgated in terms of the Long and Short-term Insurance Acts - were designed to protect you when you took out a life assurance policy or a short-term (vehicle, home or household) insurance policy.

Some of the provisions of the Policyholder Protection Rules, particularly those relating to what you must be told about these policies, now overlap with those under FAIS.

Professional Indemnity

One of the licensing requirements for financial service providers is the mandatory purchase of Professional Indemnity cover.

Professional indemnity insurance will provide the financial service provider with protection against claims resulting from the provision of incorrect advice. Professional indemnity insurance covers gross negligence, errors and omissions on behalf of the financial service provider. This would mean that the service provider would be able to settle a client’s claim without placing the business under financial strain, thus also protecting the rights of any other clients.

Module 4

Underwriting Criteria

This Module deals with:

- The underwriting criteria applied to household contents insurance with examples
- The concept of average is applied to a household contents and a household buildings insurance claim for two different scenarios

4.1 Underwriting criteria applied to household contents insurance

Underwriting is a series of questions to scientifically assess a risk in order to determine whether the insurer is willing to accept the risk or not. If it is accepted, to determine the premium and the terms and conditions that will apply to the cover.

Underwriting questions will pertain to the client e.g. age and occupation and those that pertain to the risk (building) itself such as roof type and age of the building.

The following underwriting criteria may be relevant to contents cover:

- Previous losses or damages suffered in the last three years whether a claim was submitted or not, on any contents previously insured or contents the insured intends covering
- Activities at these premises and the type of business
- Location of the risk address and details of adjacent properties
- When the premises is occupied
- Who the premises are occupied by
- What the dwelling type of the building is
- Whether there are any vacant/non residential areas adjacent to the property
- What the building is constructed of
- Whether the relevant authority has approved the building construction
- What the roof is made/constructed of
- Whether there is a lightning conductor
- Whether there is a Lapa or Thatch, its size, its distance from the main house as well as if it has been treated or not
- Security devices are installed at the house
- What the full current replacement value of the contents is
- Cover required

Each of these factors will assist the insurer to determine the probability of a loss occurring and in doing so, the premium and any other terms and conditions which may be required.

For example, if the building has a thatch roof, it increases the probability of a fire occurring as the thatch is flammable. It will also increase the speed at which the fire spreads and therefore the severity of the loss increases. The premium in respect of fire, will therefore be adjusted upward in accordance to the higher risk.

Another example would be a building which is situated on the banks of a river known for flooding. The increased risk of flooding will warrant a premium loading, however an insured who lives in an area which is considered safer statistically and has brought additional security to his home such as burglar bars and a linked alarm, will warrant a reduction in premium as the probability of the loss occurring has been significantly reduced.

4.2 Average as applied to a household contents

Average as applied to contents would be the same as average applied in general insurance.

Average is a policy provision, which has the effect of reducing a claim payment where under-insurance is discovered.

When assets are insured for less than their full current replacement value, the insured is required to bear a proportion of any loss. The proportion is the amount by which the assets are under insured, expressed as a percentage of its indemnity value, at the time of the loss.

The following formula can be applied to calculate the level of underinsurance:

(Insured Value / Actual Value) x Loss

It is important to understand however that in a total loss situation, the full sum insured will become payable. This would be because the client has lost 100% of their property and therefore 100% of his sum insured is payable. He will only carry the portion of the property that was not insured.

To further illustrate this point, we will apply the formula to a total loss situation:

Actual value: R2,000,000
Sum Insured: R1,000,000

(R1,000,000/R2,000,000) x R2,000,000*
= R1,000,000

*Remember, this amounts refers to the value of the loss and NOT the sum insured.

Module 5

Personal Liability

This Module deals with:

- The concept of personal liability with examples of cover under a standard policy
- A policy document analysed to determine liability cover
- Exclusions under a personal liability policy analysed from a policy document
- The difference between property owners and tenant's liability as it applies to personal liability

This section is often included as an integral part of Householders or included as a separate section at no extra premium if the policyholder has Householders cover. Personal Liability normally cannot be effected on its own. Some insurers charge a premium for this cover, but it is a nominal amount, perhaps R10,00 per month.

5.1 Personal liability cover under a standard policy

Some insurers provide liability cover under the contents extensions section of the policy, whilst others provide for this as part of the contents wording or as part of a separate personal liability section.

Personal liability covers the insured and members of the insured’s household who live with the insured, where they are legally responsible for the following:

- Accidental death or bodily injury to people other than members of the insured’s household or domestic employees
- Accidental loss of or damage to property belonging to people other than members of the insured’s household or domestic employees

This cover will include legal costs which someone can recover from the insured and which the insurer will agree to in order to settle or defend a claim against the insured.

5.2 Determining liability cover

In order to gain a clear understanding of the liability cover offered by a specific insurer the policy wording of that insurer needs to be analysed.

5.3 Exclusions under a personal liability policy

Liability cover is exactly the same as other short term insurance policies in that it will also have various exclusions. These exclusions may relate to activities, use, possession or ownership. It is important to note the exclusions relevant to the specific insurer’s policy.

We now look at the specific exclusion that applies to the Liability Policy.

Family Member
There is no cover for liability in respect of

- death of or
- bodily injury to or
- illness of

any person who is a member of the insured's household or family whether residing with the insured or not.

Custody and Control
Loss or damage to property in the custody and control of the policyholder or his domestic servant is excluded.

The property of guests is not specifically excluded by this exception, but this does not imply that liability for guests' property is covered. Insurers may argue that the property of guests is in the custody of the policyholder while it is on his premises.

Professional Liability
Legal liability arising directly or indirectly from the policyholder's profession, employment or occupation. The word "indirectly" gives this exclusion extremely wide meaning and must be interpreted correctly. Remember that "policyholder" includes all members of the family normally resident with the insured. Therefore liability arising out of part-time employment of a child is excluded.

The policy wording does not state that occupation or employment must be full-time or that self-employment does not fall into the exclusion. If insurers define employment as broadly as an "activity for reward", then even side-lines and paying hobbies would be excluded.

Liability to Employees
Liability to any one

- under a contract of service or
- apprenticeship with the insured
- which arise out of their employment

is specifically excluded. Therefore there is no cover here for liability to domestic servants or gardeners, except as defined under the householder's policy.

Motor Vehicle and Animals
Liability arising from the use of any

- mechanically propelled vehicle
- trailer
- animal drawn vehicle
- animal (other than a horse, dog or cat)
- aircraft
- watercraft (other than a row boat, surf board, paddle ski or canoe)

Some policies use the term "mechanically propelled" vehicle, which would of course exclude liability arising from the use of a pedal cycle. Others however specifically refer to motor vehicles in which case pedal cycles would be covered.

Other Buildings
Liability arising from the

- ownership,
- tenure,
- possession or
- use of any land or buildings

by or on behalf of the insured is excluded. This would be property owner's liability which would fall either under the House owners section or if owned by the insured as a business would require Public Liability cover in terms of a business policy.

Contractual Liability
Liability accepted by agreement, which would not have attached in the absence of the agreement is, contractual liability. However, contractual liability in terms of agreements with security firms are, as we have seen, not been excluded.

Tenants Liability may conflict with this exclusion, because the liability of the tenant to his landlord is often spelled out in the lease, which is legally binding on the tenant.

We must remember though that this is insurance of legal liability - delictual liability - and not contractual liability. For this reason, liability that would have attached to the policyholder notwithstanding the lease or contract - that is, at common law - will be covered.

Conclusion
Insurers' wordings vary and some insurers have different and/or additional exclusions to these. For example some insurers exclude liability arising from:

a) the use of fire arms;
b) lifts or elevators;
c) intentional acts;
d) seepage and pollution unless arising from an unintended and unexpected event;
e) punitive, exemplary or vindictive damages, fines or penalties;
f) costs and expenses subsequent to the date on which the Company has paid or offered to pay the full amount of the claim.

e) and f) are particularly important.

In a number of cases in other countries judges have awarded damages for medical expenses, loss of earnings etc., but have added on an amount for punitive damages. If a judge was to apply punitive damages in South Africa and e) was written into the policy the insured would be liable for these costs himself.

In the case of (f) if the insured delays or anyway causes additional expenses, such as interest payable to the third party, these costs would be for the insured's account.

It should therefore be obvious that individual wordings should be examined by the intermediary and the client very carefully.

5.4 Property owners and tenants liability

Liability cover under the contents and buildings section is very similar. Property owner's liability falls under buildings cover and tenant's liability falls under contents cover. As such a person who stays on the property he owns will have no need for liability cover as a tenant.

With tenant's liability the client will be covered for all amounts, which the client is legally liable to pay to his landlord arising from accidental loss of or damage to the rented building where the client is living permanently.

The insured is the policyholder and members of the policyholder's family normally resident with the policyholder.

If the policyholder becomes legally liable to pay compensation for

- accidental death,
- injury or
- illness

to persons or

- accidental damage to or
- loss of property

occurring during the period of insurance, and arising as a private individual the insurers will indemnify the policyholder up to the specified limit. There is no cover for liability arising out of business or employment.

Limit of Indemnity

The limit of indemnity under these policies is normally substantial with anything between R1 000 000 and R10 000 000 being the norm. The insured requires a large limit as court awards are increasing and any award over the policy limit will be for the insured's own account.

It is not just the amount the third party is awarded that is covered and we look at the various other items covered under this policy.
Legal costs and expenses incurred with the insurer's consent are also covered.
The costs and expenses would be

- those involved in investigating the circumstances of the claim;
- legal defence costs;
- assessor's fees;
- the cost of witness travelling expenses, et cetera.

Bibliography

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