<u>SAIA Standardised Terminology</u>
<u>Final draft list of definitions</u>: August 2015

INDEX

38. Schedule
39. Self-insured
40. Special Conditions
41. Start date
42. Sum insured
43. Terms and Conditions (Ts and Cs)
    43.1 Clauses
    43.2 Conditions
    43.3 Policy terms
    43.4 Provision
44. Third party cover (third party insurance)
45. Total loss cover
46. Under-insurance
47. Uneconomical to repair
48. Unoccupied
49. Vacant
50. Write-off

With acknowledgment to the Insurance Institute of South Africa (IISA) for information and examples provided.

Disclaimer

The information contained in this document is for information purposes only, aimed at explaining terminology used in short-term (non-life) personal lines insurance. The definitions are taken from industry practice, to assist in explaining possibly ambiguous or confusing terms used in the short-term (non-life) insurance industry. **This document does not in any way replace your own policy document or contract of insurance or the definitions contained therein**. It does not seek to contain a completely comprehensive explanation/definition of all possible meanings of the terms listed; nor does it alter, replace or substitute any applicable rules, guidance or law. SAIA makes no representation as to the accuracy or completeness of any information in this document, and is not liable for any errors or omissions contained herein. SAIA is not liable for any loss, injury or damages sustained as a result of using this document or the interpretations and definitions provided.

DEFINITIONS

1. All Risks

An "all risks" policy provides cover for loss or damage resulting from any incident, unless the incident is specifically excluded under the policy. An "all risks" policy normally covers your personal belongings in your possession anywhere in the world, or property that you are likely to take with you away from your home. This may include wearing apparel and personal effects. There is usually one general amount covered as part of the total value of your household contents for which you are insured. It covers you for accidental loss or damage due to fire, theft, accidental damage or damage caused by a third party, and may not cover specific individual goods like cell phones, laptops, expensive jewellery, etc. unless these items are specified.

The personal belongings covered by an "all risks" policy can be specified or unspecified (general).

Example:

"Unspecified property" will typically be included for a limited rand amount you choose to cover items of a personal nature that you take with you when you leave your house. It may exclude certain items like cell phones and high value items which will be required to be specified. "Specified property" will be specified listed items of financial value. The value of these "specified" items usually exceeds the "all risks" limit specified in the policy. High value items like jewellery, cell phones, laptops and electronic goods etc. should be specified if you want to ensure that the items are covered. The premium for specified property may be higher than "all risks" insurance, but will depend on the value of the items that you are insuring. There might be some minimum security requirements that you will have to comply with to ensure that you are covered under such a policy.

Note that if you want to claim for loss of or damage to any of these items, you may have to prove the value of your loss. In the case of jewellery items such as diamond rings and watches over a certain value and other special items such as artwork or Persian carpets, you may be required to supply a valuation certificate when you claim.

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2. Anniversary date

The anniversary date (which may also be referred to as the "renewal date") is the day that occurs every year in the same month that the policy started. This is usually every 12 months after the date on which the policy starts. This is only applicable for the period during which the policy is effective.

Example:

If the start date of your policy is 1 September 2014, the anniversary date of your policy will be 1 September 2015. On the anniversary date, the policy is reviewed by the insurer and premiums may increase or decrease, depending on various factors.

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3. Average

Average (or "subject to average") is the calculation that insurers apply when dealing with a claim in a situation of **under-insurance.** See meaning of "under-insurance" below and at point 49.

Example:

Average is applied using the following formula:

$$\frac{\text{Sum Insured}}{\text{Value at Risk}} \times \text{the Loss} = \text{Settlement}$$

An example of the application of average is:

- Tom has a house and the house is insured for R200 000 (sum insured);
- The cost to completely rebuild the house if completely destroyed is R300 000 (value at risk);
- There is a fire and the cost of repairs is R60 000 (the loss);
- The amount that will be paid (settlement) is:

$$\frac{\text{R200 000}}{\text{R300 000}} \times \text{R60 000} = \text{R40 000}$$

It is important to update the amount you are insured for (the sum insured) regularly so that you remain insured for the new replacement value and avoid the risk of being **under-insured**.

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4. Agreed Value

This is the amount you and the insurer agree to insure a specific item for in the event of a valid claim for that item's total loss. This may apply to items such as a rare, classic motor vehicle, artwork or other valuable items as agreed with your insurer. These items will usually be specified separately in your policy and you will pay an extra premium for insuring them. **Average** does not apply to agreed value items.

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5. Beneficiary

This is a person or entity that you to receive the benefit from your insurance policy. This can be yourself, your estate or another person.

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6. Betterment

This describes a situation where you (the insured) end up better off than you were before the loss or damage occurred as a result of your claim being paid. Usually insurance policies do not allow for betterment.

For example, if repairs or replacement must be done in such a way that the insured item will have a higher value than it had before the loss; the insurer may ask you to pay in the difference as you are now in a "better" position.

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7. Commercial use

Generally, this is where you use your property (vehicle or other equipment etc.) for business purposes. Refer to your policy document to understand what your policy allows.

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8. Comprehensive motor insurance cover

This includes a range of covers available for a motor vehicle. Comprehensive cover covers you for damage or loss to your vehicle. It may also cover you for damage or loss caused to others through the use of your vehicle for which you are held liable (responsible). Not all policies provide the same benefits.

Comprehensive policies are usually more expensive as they provide cover for more possible risks. This type of cover is often required by banks or financial institutions if a vehicle is financed under a credit agreement.

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9. Consequential loss

This is loss not directly caused by the insured event, but is an indirect result of the event. This is loss or damage that was not foreseen by the insurer or the policyholder at the time the policy was taken out. Consequential loss is in many instances not covered and cover is dependent on the risk that the policy covers.

Example:

Your geyser bursts and your ceiling and carpets are damaged. This is normally covered by your homeowner's policy. You may have to wait for the plumber to arrive and as a result, miss a client appointment. This means you lose out on income and this loss of income is a "consequential loss" of the geyser bursting. This is in most instances not covered unless specifically mentioned in your policy.

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10. Credit Shortfall

This is a type of added insurance cover, generally referred to as "Top-up" cover, that covers the difference between the amount paid out by the insurer in the event of a total loss of a vehicle, and the amount owed to the bank or finance institution that financed the purchase of the vehicle under the credit agreement. This cover does not form part of comprehensive motor insurance cover, but it can be an optional extension to an existing policy, or purchased as a separate policy at an extra premium. There may be limits of cover or certain amounts excluded from credit shortfall cover, such as arrears, certain finance charges and policy excesses.

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11. Deductible (see Excess; First amount payable)

In personal lines insurance, the word "deductible" has the same meaning as **Excess** (see below).

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12. Excess (see Deductible and First amount payable)

This is the first amount payable by you or deducted by the insurer in the event of a valid claim. In other words, the excess is that part of the loss or damage/claim that the insurer does not pay for. It can be a fixed amount or a percentage of the claim depending on the specific insurer's policy wording. Insurers may allow you to choose your excess amount in exchange for a lower premium.

Example of the calculation of the excess:

Your policy wording states that your excess is 10% of the claim or a minimum of R1 000.

The excess is calculated on the value of the claim or item/property insured. Where the claim is:

- R100 000 – the excess would be 10% of R100 000 i.e. R10 000
- R10 000 – the excess would be 10% of R10 000 i.e. R1 000
- R5 000 – the excess would be the minimum of R1 000
- R500 – the excess would be the minimum of R1 000 and therefore not worth submitting a claim.

TYPES OF EXCESSES

12.1 Basic excess

This refers to the minimum excess payable in terms of all claims submitted under that policy. This will be the compulsory excess that needs to be paid before the insurer will pay your claim.

12.2 Additional excess

When there is more than one excess applicable to the same claim over and above the basic excess , these are called additional excesses and are usually added together (accumulated) and are added to the basic excess.

In some instances you are able to choose additional excesses and these form part of your policy (see voluntary excess below).

12.3 Voluntary excess

A voluntary excess is an additional excess agreed to by you in exchange for a reduction in premium. It is added to the basic excess.

Example:

If you have a basic excess of R100, and a voluntary excess of R250. When you submit a claim for R1 000, you will need to pay R350 and your insurer will pay the remaining R650.

12.4 Cumulative excess

This is used when **additional excesses** are added together, if applicable to the same claim.

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13. *Ex gratia* payment

This is a **discretionary** payment made to you by the insurer as an expression of goodwill when there is no legal obligation to pay the claim in terms of the policy. This payment is made to you without your insurer admitting any liability (responsibility) under the policy.

Ex gratia payments cannot be regarded as a binding standard which will be followed by the insurer in the future.

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14. Exclusions

Exclusions are specific items, losses or events that are not covered in terms of your policy. These will be specified in your policy wording and it is important that you read your policy carefully. Exclusions may also sometimes be referred to as "exceptions".

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15. Extensions

These are additional or extra ("add-on") covers or benefits that may be included in your policy. Some of these may be at an additional premium.

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16. Fire and Theft cover

This policy covers property that is lost or damaged in the event of fire or theft **only**. Loss or damage caused by anything else will not be covered.

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17. "Held liable"

You are held liable (responsible) when someone proves that you caused him/her injury, loss or damage unlawfully, whether deliberately or accidentally (negligently).

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18. Household

This term usually forms part of a Household Contents policy and is used to describe the people who normally live with you, but it may be restricted to immediate family members or individuals who are financially dependent on you, including your domestic employees. Some insurers may limit the definition of household to certain persons actually living with you, such as immediate family members and domestic employees.

Example:

Your household contents policy covers the contents of your home. Your extended family comes to visit for a holiday and stays with you. Your home gets broken into and some of your extended family member's belongings are stolen. In that event your extended family will not form part of your household, and therefore their claim will be excluded from a claim under your policy. They would have to claim under their own policy.

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19. Indemnity

This is the basis of most insurance policies. It is the benefit you receive that places you, as far as possible, in the same financial position that you were in before the loss occurred. The insurer has an option to repair, re-instate, replace or to pay cash. Different policies will have different cover options to indemnify you for your loss and the basis on which your insurer will indemnify you.

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20. Insurable interest

You have an insurable interest in property if you will gain a **financial** benefit from the protection of that property being insured, or if you could suffer a **financial disadvantage** should the property insured be lost, damaged, or in the case of personal injury insurance, where an insured person is injured. Generally, an insurable interest is established by ownership, legal possession or direct relationship.

Insurers may stipulate specific policy provisions requiring you to prove insurable interest at underwriting or claims stage, for example having to demonstrate ownership of a vehicle etc.

Example:

A father can insure his son's or his wife's vehicle under an insurance policy in his name, if he has an insurable interest in the vehicle in that he pays the credit agreement, even though he may not be the driver of the vehicle.

21. Liability

This is the legal responsibility one person has to another, that is enforceable by law**.** Also see the definition of “Held Liable”.

22. Material fact

A material fact is any information that will influence the insurer’s decision:

- whether or not to insure you; or
- as to the terms and conditions that the insurer will apply when insuring you (E.g. how much premium to charge, excesses to apply, any conditions or exclusions to apply etc.).

If you do not tell your insurer of important ("material") information this could make your policy invalid or negatively affect a claim.

23. MOTOR VALUES

23.1 Retail value

In motor insurance
This is the likely selling price of the vehicle by a motor dealer to a purchaser.
This is the possible value that a motor vehicle “retails” for if you were to buy it from a dealership. The retail price is the closest value to the replacement value or cost of your insured motor vehicle.

23.2 Trade value

In motor insurance
This is the likely price a dealer would pay for your vehicle when it is traded in.

23.3 Book value

In motor insurance
If you are *buying* a vehicle, then the book value is the same as the retail value.
If you are *trading in* your vehicle, then the book value is the same as the trade value.

23.4 Market value

In motor insurance
The market value is the average between the likely trade and retail values of a vehicle.
(trade value + retail value) / 2 = market value

Example:

- A motor dealer can sell a vehicle to a customer for the amount of R300 000 (retail value)
- The same vehicle was traded in by its previous owner for R 250 000 (trade value)
- The market value of the vehicle will therefore be R275 000

- $\dfrac{\text{(R250 000 [trade value] + R 300 000 [retail value])}}{2}$ = R 275 000 (market value)

In property insurance

The same calculation is not applicable to calculating the market value of other movable property, such as furniture or electronic goods. In property insurance, the market value is the amount a willing buyer will offer to a willing seller to buy the property concerned.

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24. Period of insurance ("POI")

This is the period for which you have cover, beginning with the start date and ending with the expiry date of the policy, as stated in your policy**,** and for which premium has been received by the insurer.

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25. Permanently unfit for use

Property is permanently unfit for use when it has structural damage and would be impossible or unsafe to repair.

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26. Premium

This is the amount of money you will pay to an insurer or its authorised representative in return for the insurance benefits (cover) set out in the policy. Premiums are paid at agreed regular intervals, usually monthly or annually.

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27. *Pro rata* premium

This is a portion of the full premium that you must pay if you are only covered for a certain period from the time that the cover starts on the policy.

Example:

On a monthly policy, if you only require cover from 20 April, you will be charged a *pro rata* premium which is equal to 10 days from 20 April to 30 April. Thereafter you will pay the full monthly premium.

28. Proximate cause

This is a direct cause of a loss which has not been interrupted by any other event. The insurer will only be liable to cover you for insured events that directly cause the loss or damage.

Example 1:

A person who has a personal accident insurance policy goes horse riding, falls off, breaks his leg (i.e. has an accident) and cannot move and during the night he dies of exposure. This incident is covered, because the accident was the direct cause of the fact that he died.

If the same incident occurs and the injured person is taken to hospital but contracts chicken pox whilst in the hospital and dies of chicken pox, such an event is not covered, because the accident did not directly cause his death – the illness did.

Example 2:

A shopkeeper insures his shop windows against loss or damage from any cause **except** fire.
A fire breaks out at a neighbouring store and a mob of people gather at the scene. The mob starts to riot and the shopkeeper's windows are broken by the mob. The damage to the windows was caused by riot and not the fire and therefore the insurer will pay the claim.

29. Regular driver

This is the person named in a motor policy as the person who uses the vehicle the most. May also be known as the *usual driver.*

30. Nominated driver/named driver Only

The nominated driver is different to the regular driver of the vehicle. This driver is named and recorded in your policy as the **only** agreed driver of the insured vehicle. There may be more than one nominated driver. In such a policy if any other person is driving the vehicle, there is no cover. This is a very restrictive type of cover and something you should take note of.

31. Replacement cost or value

The replacement cost or value of an item is the cost to replace that specific item or property.

In a motor policy, the replacement cost would be either the retail or the market value of the vehicle. (See the definitions of **retail value** and **market value**.)

32. Reject (see also Repudiate)

If an insurer rejects a claim, the insurer has refused to pay the claim or any part of the claim, in terms of the policy.

33. Repudiate (also see Reject)

If an insurer repudiates a claim, the insurer has rejected the claim, which could be for various reasons. It has the same meaning as the definition of **Reject**.

34. REWARD FEATURES

34.1 Cash-back bonus

A cash-back bonus is a way of rewarding policyholders for not having claimed for a specified time and is offered by some insurers. If you have not claimed for the specified period of time, some insurers will make a payment to you as a bonus for not claiming. The insurer may pay back a part of the premiums that you have paid.

34.2 No Claim bonus

This is a discount on your premium based on your past claims history. If you claim, this may affect your premium discount in the future.

35. Re-rate

This is when the insurer re-calculates or reviews the premium payable for your policy. An insurer will typically re-rate your premium if you have submitted a valid claim, or on the anniversary date of your policy. Please refer to the definition of **Anniversary date** above.

36. Roadworthy

A vehicle that complies with existing road traffic laws of the country, and is in a fit condition to be used on a public road, is considered roadworthy. It is a condition under your motor policy that your motor vehicle must be roadworthy. If your vehicle is not roadworthy, it will negatively affect your cover.

37. Salvage

Salvage is what is left of a damaged item which has been treated as a “write-off” by your insurer. (See the definition of “**write-off**” below.) This damaged item becomes the property of the insurer after the claim has been paid.

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38. Schedule

A schedule is a document that summarises all your specific insurance information. It can also be referred to as a "certificate of insurance". It forms part of your insurance policy document. It sets out the type of insurance you have bought, the premium amount you have to pay, information about excesses and/or exclusions, start date, period of insurance, renewal date and other details specific to your policy.

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39. Self-insured

To be self-insured is when you set aside your own money to cover or protect yourself against any loss or damage. This is a conscious, deliberate decision that you make to carry, or fund, your own losses.

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40. Special Conditions

These are additional conditions that must be in place or complied with by you in order to enjoy the benefits of a specific section of the policy.

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41. Start date

The date from which you are covered under your insurance policy. The start date (or inception date of your policy) and the date of commencement of cover can be different dates. You should refer to your policy document to confirm when cover is effective/ from when it is in force.
(This may also be referred to as the *Inception date/effective date/commencement date.*)

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42. Sum insured

The sum insured is the maximum amount that your insurance company has agreed to pay for insured property in the event of a valid claim.

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43. Terms and Conditions ("Ts and Cs")

The terms and conditions in a policy set out the general and special arrangements, provisions, requirements, legal rules, specifications, and standards that form an integral part of the agreement or contract between you and the insurer. Your policy document is a very important document and you must read and understand it.

43.1. Clauses

Clauses are sentences and paragraphs describing the responsibilities of both you and your insurer and other terms and conditions that may apply to your policy.

43.2. Conditions

These are detailed conditions in your policy and are requirements that must be in place or complied with by you so that you can enjoy the benefits of the policy.

43.3. Policy term

Policy term is a term or clause in a contract. There are different classes of terms in a policy, such as ***conditions, warranties, exceptions and exclusions, extensions, clauses and provisions.***
(In long-term insurance [life insurance], the policy term may refer to the period during which the contract may be in force i.e. *its period of insurance.*)

43.4. Provision

A policy provision is a term which may require certain things to be done or not done. If you do not comply with a provision, it may affect your cover, premium or a claim.

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44. Third party cover (third party insurance)

Third party cover is insurance that covers you for damage or loss caused to others through the use of your vehicle and for which you are **held liable.** This can be part of a comprehensive policy or it can be bought separately as a stand-alone policy.
(See the definition of **Held Liable** above.)

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45. Total Loss cover

Total Loss cover is insurance that provides cover for an item or property only when it is stolen, lost or totally destroyed. This type of policy will not cover you when the items that are damaged can be repaired.

Total loss is a condition of real or personal property when it is lost, damaged or destroyed to such an extent that it cannot economically or safely be rebuilt or repaired. In the event of a total loss of property, the insured value of the property lost is paid.

This may be different from Comprehensive Cover.

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46. Under-insurance

Under-insurance is when property is insured for less than it would cost to replace the property. When a situation of under-insurance occurs, a valid claim will be *subject to average.*

If you understate the insured value, you may be paying an incorrect amount of premium and therefore be under-insured. Should you then have a claim, the payment will be calculated in proportion to the actual sum insured and the actual value at risk at the time of loss or damage and your claim pay-out will be adjusted accordingly.

(See the definition of **Average** above.)

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47. Uneconomical to repair

This refers to the situation where the insurer considers it possible to safely repair damaged property, but the cost of doing the repairs is more than the value of the property, less its expected salvage value. The insurer may in such a situation not consider it financially worthwhile to repair the property concerned and so the damaged property will be a “write-off” or "written off".

(See the definition of **Write-off** below.)

A vehicle is “uneconomical to repair” when the cost of parts, the availability of parts, the repair duration and or/motor vehicle rental costs or other costs associated with the repair are high in relation to the value of the vehicle.

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48. Unoccupied

If premises are unoccupied at regular intervals or for an extended period of time, they pose a higher risk of theft and/or damage, and therefore will result in a higher premium being charged and/or excess being applicable in the event of a claim, or the claim may even be rejected. Most insurers use a 30 or 60 “consecutive days'“exclusion clause for such premises, and some insurers may state the exclusion as 30 or 60 days “cumulative” over a period of 12 months.

An example of a “consecutive period exclusion clause” is a family vacation of more than 30 or 60 days, depending on the policy wording, during which there is no domestic employee or person looking after the property at regular intervals.

An example of “cumulative period” is where a person travels often for business, where the cumulative days away are more than 30 or 60 days over a 12-month period, depending on the policy wording, and there is no domestic employee or person looking after the property.

49. Vacant

When a property is considered vacant, it means that nobody lives in or uses the building, or that someone uses the building without your permission. In insurance this is different to the meaning of the word “unoccupied”. (See definition of **Unoccupied** above.)

50. Write-off

When an item or property is so badly damaged that it cannot be repaired, or it is unsafe or uneconomical to repair it, it is then considered a total loss/write-off.

Written-off motor vehicles are motor vehicles where the insurer has decided not to repair the vehicle. These motor vehicles are classified into one of a number of status codes, ranging from Code 2 (where the motor vehicle is uneconomical to repair under the policy, but can be safely repaired) to Code 3 (where it is stolen and recovered), to Code 4 (where it is “permanently demolished”).

(See the definition of **Uneconomical to repair** above.)

Total: 50 terms

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