**CHAPTER SIX**

**NON-LIFE INSURANCE**

Property and liability insurance consists of those forms of insurance that are designed to provide protection against losses resulting from damage to or loss of property and losses resulting from a legal liability.

 **AUTOMOBILE INSURANCE**

Most automobile insurance contracts are schedule contracts that permit the insured to purchase both property and liability insurance under one policy. The contract can be divided into two separate contracts. One provides insurance against physical damage to automobiles and the other protect against potential liability arising out of the ownership or use of an automobile.

The objective of automobile insurance is to indemnify the insured against accident loss or damage to high auto and / or his liability at law for bodily injury or material damage cause by the use of motor vehicle, subject to the terms and conditions and to the cover granted.

There are two main types of insurance covers in motor commercial and motor private insurance, viz. Comprehensive cover and Third party cover.

**Comprehensive Cover**: A comprehensive cover provides protection against a wide range of contingencies. It includes indemnity in respect of the insured’s legal liability for death or bodily injury or damage cause to the property of third parties arising out of the insured’s vehicle. The policy also indemnifies the insured in respect of all damages to the vehicle caused by an accidental, external physical means as a result of collision, overturning, fire self-ignition, lightning, explosion, and burglary.

The policy excludes, among other things, the following:

* Consequential loss sustained by the insured.
* Wear and tear depreciation of motor vehicle,
* Mechanical or electrical breakdown of failure of any part of a motor vehicle,
* Death of or injury to members of insured family or his employees,
* Damage to property of the insured or held by him in trust or in custody.

**Third Party Cover:** There are two parties involved in an insurance contract, the insurer and the insured. Accordingly, any other person who may become linked in some way with the insurance is regarded as third party. A third party only policy covers the insured’s legal liability (i.e. property damage, death, and injury) towards other people in the event of an accident arising out of the use of a motor vehicle.

A third party policy may be extended to include at an additional premium the policy holder’s vehicle against the risks of fire and theft as follows:

* Third party, fire and theft.
* Third party and fire.
* Third party and theft.

The basic cover guaranteed by the Ethiopian Insurance Corporation’s policies can be extended to cover additional risks at an additional premium.

**Classification of Risks**

There are various categories of automobile risks and a distinction is made in accordance with the use of type of the vehicles. The main classifications are as follows:

* **Private Vehicles**: A motor vehicle used solely for private (social, domestic, pleasure, professional purpose or business calls of the insured) purposes are classified as “private vehicles” and are insured under the “private motor vehicles policy”. The term “private purposes” does not include use for hiring, racing, and carriage of goods in connection with any trade or business.
* **Commercial Vehicles**: A wide range of vehicles which carry goods and passengers are classified under this heading and different rates of premium are supplied depending on their use and type.

 **FIRE INSURANCE**

Fire insurance is designed to indemnify the insured for loss of, or damage to, buildings and personal property by fire, lighting, windstorm, hail, explosion and a vast array of other perils. Coverage may be provide for both the direct loss (that is actual loss represented by the destruction of the asset), and indirect loss (defined as the loss of income and or extra expenses caused by the loss of use of the asset protected). Originally, only fire was an insured peril, but the number of perils insured against has gradually been expended.

Business may therefore, purchase fire insurance contracts covering their building and its contents, to both the peril of fire and lightning. The standard fire policy promises in its insuring clause to indemnify the insured for “direct loss by fire, lightning and by removal from premises endangered by the perils insured against.”

Insurers, however, may offer protection against a very great number of perils other than fire and lightning by extending the contract in relation to the interest of the insured through additional premium payment. For additional premium the standard fire policy may be extended to cover any of the following perils: windstorm, explosion, damage by aircraft, damage by vehicle, flood, earthquake, fire and shock, bursting of pipes and water damage etc.,

Not all fires are covered under the fire insurance contract, but the exclusions are few:

* Fires caused by war.
* Fires intentionally set by public authorities, and
* Fires set intentionally by the insured.

**Policy Format**: Most of the first page of the standard fire policy is a declarations section in which is printed such information as the insured’s name and address, the policy inception and expiration dates, the description and location of the property covered, the peril insured against, the amount of insurance applicable to each peril, and the code numbers of the forms and endorsements that are attached. The standard fire policy plus the descriptive form may be modified by one of more that forms or endorsements. These other forms may add, for example, business interruption insurance or extra expense insurance. Endorsements may increase or decrease the coverage. For example, they may add additional peril or exclude some parts of a covered building, such as the foundations.

The first page also contains a brief insuring agreement that states the insurer’s basic promise. The second page describes such matters, as perils not included, uninsurable and excepted, property, cancellation, and requirements in case a loss occurs.

**Types of Fire Policies**

There are different types of fire policies; some of the important polices include the following:

1. **Valued Policy:** This is a policy where the value of the property to be insured against fire and allied perils is determined at the time the policy is issued. Under valued policy also referred to as “ordinary fire insurance policy.” The insurer pays to total value of damaged property irrespective of the market value of the property at the time of destruction or loss.
2. **Valuable (Automatic Reporting) Policy**: Under this policy the indemnity to be paid by the insurer is to be determined at the time of loss or after the loss has taken place. This policy is often used for properties whether their value cannot be accurately determined at the inception of the contract, example a building in process.
3. **Floating Policy**: Under this policy the insurer covers the interest of the insured on assets in different locations.
4. **Comprehensive Policy:** This form of fire insurance policy give full protection, not only against the risk of fire but all related perils such as riot/uprising; theft; damage by vehicles, animals or articles from the air, including aircraft and the like.
5. **Specific Policies**: Under these policies the insured would get protection to a given type of property in a given location for a specified value of property.

 **OCEAN MARINE INSURANCE**

Contracts concerned primarily with water transportation are considered to be ocean marine insurance. For a considerable time ocean marine insurance was the only kind of modern insurance.

Insurance has been developed and has attained a high degree of refinement in modern-day commerce. As world trade grew and values at risk became larger, the needs for coverage become more apparent. Larger ships and more refined instruments of navigation made long voyages possible, and with this development insurance protection was looked upon almost a necessity.

**Types of Coverage**

The four chief interests to be insured in an ocean voyage are:

* The vessel, or the hull
* The cargo
* The shipping revenue or freight received by the ship owners.
* Legal liability for proved negligence.

If a peril of the sea causes the sinking of a ship in deep water, one or more of these losses can result. However, each of these potential losses can be covered under various insurance policies.

**Vessel Policies:** Policies covering the vessel itself or hull insurance are written in several different ways. The policy may cover the ship only during a given period of time, usually not to exceed one year. The insurance is commonly subject to geographical limits. If the ship is laid up on port for an extended period of time, the contract may be written at a reduced premium under the condition that the ships remain in port. The contract may cover a builder’s risk while the vessel is constructed.

**Cargo Policies**: Contract insuring cargo against various types of loss may be written to cover only during a specified voyage, as in the case of hull contract, or on an open basis. Under the open contact, there is no termination date, but either party may cancel upon giving 30 days written notice to the other, otherwise the insurance is continuous. All shipments, both incoming and outgoing, are automatically covered. The shipper reports to the insurer at regular intervals as to the values shipped or received during the previous period.

Cargo policies written on a voyage basis cover that single voyage, but open policies usually cover all shipments made on and after a certain date. If an open policy is cancelled, the coverage continues on shipments made prior to the cancellation date.

**Freight Coverage:** The money paid for the transportation of the goods, known as freight, is an insurable interest because in the event that freight charges are not paid, someone has lost income with which to reimburse expenses incurred in preparation for a voyage. The earning of freight by the hull owner is dependent on the delivery of cargo unless this is altered by contractual agreements between the parties. If a ship sinks, the freight is lost and the vessel owner loses the expenses incurred plus the expected profit on the venture. The carrier’s right to earn freight may be defeated by the occurrence of losses due to perils ordinarily insured against in an ocean marine insurance policy. The hull may be damaged so that is uneconomical to complete the voyage, or the cargo may be destroyed, in which case, of course, it cannot be delivered. Also the owner of cargo has an interest in freight arising from the obligation to pay transportation charges. Freight insurance is normally made a part of the regular hull or cargo coverage instead of being written as a separate contract.

**Legal Liability for Proved Negligence**: In ocean marine insurance policies the vessel owner is protected against third party liability claims that arise from collisions. Collisions loss to the vessel itself is included in the peril clause as one of the perils of the sea. The liability insurance is intended to give protection in case the ship owner is held liable for negligent operation of the vessel which is the proximate cause of damage to certain property of others. The vessel owner or agent of that owner who fails to exercise the proper degree of care in the operation of the ship may be legally liable for damage to the other ship and for loss of freight revenues.

 **AVIATION INSURANCE**

Aviation insurance is a comparatively recent phenomenon that has been developing with the development of passenger plans, particularly “Jumbo Jets”. The overall increase in the number of different passenger planes and the increase in their value called for aviation insurance.

Aviation insurance in an insurance that provides protection against losses or damages to the different types of passengers, cargo planes and associated losses.

Like automobile insurance, aviation insurance includes both property insurance, on the planes and liability insurance.

**Types of Policies**

The most common types of policies under aviation insurance are:

* Aircraft Comprehensive Policy.
* Freight Liability Policy which includes airmail liability policy.

**Aircraft Comprehensive Policy**: This policy covers against three types of potential losses:

* 1. Accidental damage to the aircraft, where protection is provided for damage to the aircraft by accidents except those that are specifically excluded on the policy.
	2. Third party legal liability, where the insurer assumes the responsibility to indemnify the insured for death of or bodily injuries to third parties (excluding passengers) and ground damage.
	3. Legal liabilities of the insured in respect of death of, or bodily injuries to passengers, passenger’s baggage and personal effects, which are registered, are also covered by the insurance.

**Freight Liability:** In addition to passengers and crew an aircraft carries cargo and mail. The airline operating the aircraft is liable if the cargo or mail is lost or damage. The freight liability policy provision requires the insurers to indemnify the insured against all sums which the insured may become legally liable to pay to owner of cargo as a result of loss or damage or mishandling of the cargo. The limit to the amount of indemnity is generally stated in the freight liability policy.

**WORKER’S COMPENSATION INSURANCE**

Worker’s compensation insurance covers loss of income, medical, and rehabilitation expenses that result from work related-accidents and occupations disease. Insured workmen always retain the right to claim damages. Employers’ liability claims become much more common aided by Trade Unions.

If an employee is killed or injured at work as a result of an accident arising from defective premises or equipment that a court may award damages against the employer. Any employer is liable for an employee who suffers accidental bodily injury or disease while working for him. The employee is thus entitling to compensation for injuries that may be temporary or permanent. This compensation being unforeseen expenditure, the employer finds it difficult to compensation such losses especially when it involves a high amount. An employer may therefore, take out an insurance policy insuring himself against such claims by his employees.

The insurance which provide protection for injuring to employees while at work, and as a result make the employer liable for the loss, is called worker’s compensation insurance.

In addition to buying insurance, the insured (employer) can lower the loss claims by:

1. Providing a safe place of work to his employees.
2. Proper plant tolls, machinery and working implements, and
3. Hiring competent and sober fellow employees.

**REINSURANCE**

Reinsurance is the shifting of part or all of the insurance originally written by one insurer to another insurer. The insurer that initially writes the business is called the ceding company. The insurer that accepts part or all of the insurance from the ceding company is called the reinsurer. The amount of insurance retained by ceding company for its own account is called the net retention or retention limit. The amount of the insurance ceded to the reinsurer is known as the cession. Finally, the reinsurer in turn may obtain reinsurance from another insurer. The process by which a reinsurer passes on risks to another reinsurer is known as retrocession.

**Types of Reinsurance**

There are two important forms of reinsurance. They are;

**1. Facultative Reinsurance**

Facultative reinsurance is an optional, case-by-case method that is used when the ceding company receives an application for insurance that exceeds its retention limit. Before the policy is issued, the primary insurer shops around for reinsurance and contacts several reinsurers. The primary insurer is under no obligation to cede insurance, and the reinsurer is under no obligation to accept the insurance. But if a willing insurer can be found, the primary insurer and reinsurer can then enter into a valid contract.

**2. Treaty Reinsurance**

Treaty reinsurance means the primary insurer has agreed to cede insurance to the reinsurer, and the reinsurer has agreed to accept the business. All business that falls within the scope of the agreement is automatically reinsured according to the terms of the treaty.

There are several **types of reinsurance treaties and arrangements.** They are as follows;

**i) Quota – Share Treaty:**Under a quota-share treaty, the ceding insurer and reinsurer agree to share premiums and losses based on some proportion. The ceding insurer’s retention limit is stated as a percentage rather than as a Birr amount.

For example, Awash Insurance Company and Ethiopian Insurance Corporation may enter into a quota-share treaty by which premiums and losses are shred 50% -50%. Thus, if a Birr.10, 000 losses occurs, AIC pays Birr.10, 000 to the insured but is reimbursed by EIC for Br.5, 000.

Premiums are also shared based on the same agreed percentages. However, the reinsurer pays a ceding commission to the primary insurer to help compensate for the expenses incurred in writing the business. Thus, in the example given above, EIC receive 50% of premium less a ceding commission that is paid to AIC.

**ii) Surplus – Share Treaty:**Under a surplus-share treaty, the reinsurer agrees to accept insurance in excess of the ceding insurer’s retention limit, up to some maximum amount. If the amount of insurance on a given policy exceeds the retention limit, the excess insurance is ceded to the reinsurer up to some maximum limit. The primary insurer and reinsurer then share premiums and losses based on the fraction of total insurance retained by each party.

For example, assume that NICE has a retention limit of Br.200,000 for a single policy, and that four lines or Br.800,000 are ceded to reinsurer, NIC. Thus, NICE’s total underwriting capacity is Br.1,000,000 or any single exposure. Assume that a Br.500,000 property insurance policy is issued. NICE takes the first Br.200,000 of insurance (2/5th) and NIC takes the remaining Br.300,000 (3/5th). If a loss of Br.5,000 occurs, NICEE pays Br.2,000 and NIC pays the remaining Br.3,000.

Under surplus-share treaty, premiums are also shared based on the fraction of total insurance retained by each party. However, the reinsurer pays a ceding commission to the primary insurer to help compensate for the acquisition expenses.

**iii) Excess-of-loss Treaty:**An excess-of-loss treaty is designed largely for catastrophic protection. Losses in excess of the retention limit are paid by the reinsurer up to some maximum limit. The excess-of-loss treaty can be written to cover a) a single exposure, or b) a single occurrence, such as a catastrophic loss from a tornado, or c) excess losses when the primary insurer’s cumulative losses exceed a certain amount during some stated time period, such as a year.

For example, assume that Awash Insurance Company wants protection for all windstorm losses in excess of Br.1 million. Assume that an excess-of-loss treaty is written with National Insurance Company of Ethiopia to cover single occurrences during a specified time period. NICE agrees to pay all losses exceeding Br.1 million but only to a maximum of Br.10 million.

**iv) Reinsurance Pool:**A reinsurance pool is an organization of insurers that underwrites insurance on a joint basis. Reinsurance pools have been formed because a single insurer alone may not have the financial capacity to write large amount of insurance, but the insurers as a group can combine their financial resources to obtain the necessary capacity. For example, the loss expenses on a crash by Jet can exceed Br.2500 million if the jet crashes, such high limits are usually beyond the financial capacity of a single insurer. However, a reinsurance pool for aviation insurance can provide the necessary capacity. Reinsurance pools also exist for nuclear energy exposures, oil refineries, marine insurance, etc. The method for sharing losses and premiums varies depending on the type of reinsurance pool. Pools work in two ways;

First, each pool member agrees to pay a certain percentage of every loss. For example, if one insurer has a policy owner that incurs a Br.100, 000 losses, and there are 50 members in the pool, each insurer would pay 2% or Br.2000 of loss, depending on the agreement.

A second arrangement is similar to the excess of loss reinsurance treaty. Each pool member is responsible for its own losses below a certain amount. Losses exceeding that amount are shared by all members in the pool.