 Province of the

EASTERN CAPE

EDUCATION

**DIRECTORATE SENIOR CURRICULUM MANAGEMENT (SEN-FET)**

**HOME SCHOOLING SELF-STUDY ANSWER SHEET**

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| **SUBJECT** | **BUSINESS STUDIES** | **GRADE** | **12** | **DATE** | **06/05/2020** |
| **TOPIC** | **BUSINESS VENTURES (INSURANCE) MARKS: 40** | **TERM 1****REVISION** |  | **TERM 2 CONTENT** | **X** |

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| --- | --- |
| **QUESTION 1: BUSINESS VENTURES (INSURANCE)**  |  |
| 1.1 |  **Introduction** |  |
|  | * Insurance indemnifies businesses against certain types of risks. √
* Business owners have a clear understanding of the financial impact of accidents / disasters on the business, so they have to make provision for that in advance. √
* Insurance plays a vital role in ensuring that businesses are sustainable. √
* Insurance is a contract between the insured and the insurer to indemnify the insured in the event of a specified loss in exchange for a premium. √
* Business assets must always be re-evaluated to avoid under or over-insurance. √

Any other relevant introduction related to team performance and conflict in the workplace.  (Any 2 x 1) | (2) |
|  |  |  |
| 1.2 | **Distinction between compulsory and non-compulsory insurance** |  |
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| **COMPULSORY INSURANCE** | **NON-COMPULSORY INSURANCE** |
| * It is required by law / there are legal obligations for it to be taken out√ and paid for.√
 | * It is voluntary√ and the insured has a choice to

enter or not, into an insurance contract.√ |
| * It is regulated by Government√ and does not necessarily require insurance contracts / brokers. √
 | * The insured will enter into a legal insurance

contract with the insurer√, who may be represented by an insurance broker.√ |
| * Payment is in the form of a levy / contribution paid into a common fund√ from which benefits may be claimed under certain conditions.√
 | * Monthly / Annual payments / premiums must be

paid√ in order to enjoy cover for a nominated risk / insured event.√ |
| * Examples: UIF, RAF, COIDA√
 | * Examples: Short-term insurance / Multi-peril insurance (theft, fire, etc.) / Long-term insurance

 / Life insurance√ |
| Any other relevant answer related to compulsory insurance | Any other relevant answer related to compulsory insurance |
|  Sub max (4) |  Sub max (4) |

 | (8) |
|  | **NOTE: 1. The answer does not have to be in tabular format, but the distinction must be clear.**  **2. Award a maximum of SIX (6) marks if the distinction is not clear/ Mark either compulsory** **or non- compulsory insurance. Max (8)**  |  |
| 1.3 | **Importance of insurance**  |  |
|  | * Transfers the risk from the business / insured√ to an insurance company / insurer. √
* Transfer of risk is subject to the terms and conditions√ of the insurance contract. √
* Protects the business against theft / loss of stock and / or damages√ caused by natural disasters such as floods, storm damage √, etc.
* Business will be compensated for insurable losses√, e.g. destruction of property through fire. √
* Business assets, e.g. vehicles / equipment / buildings need to be insured√ against damage and / or theft. √
* Business is protected against the loss of earnings√, e.g. strikes by employees which result in losses worth millions. √
* Protects business√ against dishonest employees √
* Life insurance can be taken on the life of partners in a partnership√ to prevent unexpected loss of capital. √
* Should the services of key personnel be lost due to accidents / death√, the proceeds of an insurance policy can be paid out to the business / beneficiaries. √
* Replacement costs for damaged machinery / equipment are very high√, therefore insurance can reduce / cover such costs. √
* Protects businesses from claims made by members of the public√ for damages for which the business is responsible √
* Protects businesses against losses√ due to death of a debtor √

Any other relevant answer related to the positive impact of insurance on businesses **Max (14)** |  (14) |
|  |  |  |
| 1.4 | **Principles of insurance** |  |
|  | **Indemnification / Indemnity √√*** Usually applies to short term insurance, as the insured is compensated for specified / proven harm / loss √
* Insurer agrees to compensate the insured for damages / losses specified in the insurance contract, in return for premiums paid by the insured to the insurer. √
* Protects the insured against specified events that may occur. √
* Pay-outs from insurance companies / insurer will only be made if there is proof that the specified event took place / if the insured can prove the amount of the loss / damage. √
* The amount of indemnification / compensation is limited to the amount of provable loss / damage, even if the amount in the policy / insurance contract is higher. √
* The insured must be placed in the same position as before the occurrence of the loss / damage / The insured may not profit from insurance. √

Any other relevant answer related to indemnification / indemnity as a principle of insurance.  Principle (2)  Discussion (2)  Sub max (4)**Security / Certainty √√*** Applies to long-term insurance where the insurer undertakes to pay out an agreed upon amount in the event of loss of life √
* A predetermined amount will be paid out when the insured reaches a pre-determined age / or gets injured due to a pre-determined event. √
* Aims to provide financial security to the insured at retirement / the dependents of the deceased√

Any other relevant answer related to security / certainty as a principle of insurance Principle (2)  Discussion (2)  Sub max (4)**Utmost good faith** √√* Insured has to be honest in supplying details when entering into an insurance contract. √
* Both parties must disclose all relevant facts. √
* Insured must disclose everything that may affect the extent of the risk. √
* Details / Information supplied when claiming should be accurate / true. √

Any other relevant answer related to utmost good faith as a principle of insurance. Principle (2)  Discussion (2)  Sub max (4)**Insurable interest** √√ * Insured must prove that he / she will suffer a financial loss if the insured object is damaged / lost / ceases to exist. √
* An insurable interest must be expressed in financial terms. √
* Insured must have a legal relationship with the insured object in the contract. √

Any other relevant answer related to insurable interest as a principle of insurance Principle (2)  Discussion (2)  Sub max (4) **Max (16)** | (16) |
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| 1.5 | **Differences between over-insurance and under-insurance** |  |
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| **OVER INSURANCE** | **UNDER-INSURANCE** |
| * Over-insurance is when the item is insured for more than the actual market value. √√
* Businesses / Individuals will not receive a pay-out larger than the value of the loss at market value. √√
* This means that the extra money paid for the premiums will not be paid out to the insurer√√

 Any other relevant answer related to over-insurance  | * Applicable when property / goods are insured

 for less than their market value √√ * The insurer will only pay the average between

 the actual value and the insured value. √√ * This means that the insured will have to carry a

part of the risk that is not insured. √√ * The insurer will use the Avery Formula to

calculate the amount that will be paid out for the claim. √√ Any other relevant answer related to under-insurance |
|  Sub max (4) |  Sub max (4) |

 **Max (8)** | (8) |
| 1.6  | **Conclusion** |  |
|  | * The insurance agreement should take into consideration the risks applicable to each situation. √√
* Business property / assets must be insured for the correct / latest market value. √√
* Compulsory insurance reduces the financial risk of businesses. √√
* The value of insured goods / items must be adjusted to include appreciation and / or depreciation. √√

Any other relevant conclusion related to insurance  (Any 1 x 2) Max (2) | (2) |
|  |  |  | **[40]** |

 **BREAKDOWN OF MARK ALLOCATION**

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| Introduction | 2 | 32 |
| Distinction between compulsory and non-compulsory | 16 |
| Importance of insurance | 14 |
| Principles of insurance | 16 |
| Differences between over and under insurance | 8 |
| Conclusion | 2 |
| **INSIGHT** |  |  |
| Layout | 2 | 8 |
| Analysis/Interpretation | 2 |
| Synthesis | 2 |
| Originality/Examples | 2 |
| **TOTAL MARKS** |  | **40** |