INSURANCE FOR SMALL AND MEDIUM BUSINESS

Insurance is a firm in which individuals/ business that are subjected to certain risks contribute and pay carefully calculated sum of money and from which the unfortunate few who actually suffer loss from stated risks are compensated

TERMS USED IN INSURANCE

Insured. This is a person or company taking out insurance policy in case of loss from stated risk(s)

Insurer. This is the insurance company giving protection to the insured's property. It is the company that receives the premium and guarantees protection to the insured. In Uganda examples include national Insurance Company (NIC), Excel Insurance, Jubilee Insurance, Green Land Insurance, State Wide Insurance Company (SWICO)

Premium. This is the annual contribution made by the insured to the insurer. It forms a pool from which compensation is made to those who suffer losses.

Factors considered by the insurer when determining premium

- ✓ The nature of the property being insured. Delicate and fragile property/ goods to handle e.g. petrol stations attract higher premium than obvious goods.
- ✓ The number of people exposed to the same risk. The bigger the number the lower the premium because the cost is spread than when the number is small.
- ✓ The frequency of the occurrence of the risk being insured. The higher the possibility of occurrence of the risk the higher the premium paid than where the possibility of occurrence is low.
- ✓ Operating expenses of the insurer. Higher administrative costs and rates of claim of compensation attract higher premium than lower administrative operating expenses.
- ✓ The desired profit margin of the insurer. If the insurer aims at making high profit then a higher premium is charged than when the insurer aims at sale maximization.
- ✓ Precautions taken by insured to reduce the risk. Availability of precautions like fire extinguishers in building, safety belts in vehicles tend to reduce premium rates than where there are no premiums completely.
- ✓ Type of policy to be bought. Short term policies mostly attract less premium than long term policies
- ✓ Value of the property to be insured. Expensive good attract higher premium than cheap goods.
- ✓ Age of property. Old articles and items face higher chances of damage hence attract higher premium than new articles
- ✓ Level of incomes in case of life insurance. High income earners are charged higher premium as their beneficiaries have to be given higher compensation than low income earners.

Sum insured. This is the total value of the property which the insured stands to lose in the case of risk happening. It is therefore the value the insurer would compensate the insured in case of loss

Risk. This is the event against which the insured takes up an insurance contract. It is something that can cause financial suffering once it occurs. To protect against risks, an entrepreneur takes out appropriate insurance protection

Insurable risks. These are risks that can be legally insured in case of their occurrence. Such risks include death, fire, machinery breakdown, theft etc. as can be seen, and an entrepreneur can take a reasonable degree control these risks (except death) by taking appropriate measures in and out of his / her business

Non insurable risks. These are risks that cannot be legally insured and in the event of their occurring, the insurance company cannot be legally compelled to compensate examples are wars, political turmoil, floods, lightening etc

Loss. This is the happening of events against which insurance is taken. For instance if one insures his business against fire and it is burnt down, the loss of the business happened

- ✓ Total loss, this is when the whole property is completely destroyed
- ✓ Partial loss, this is only when a part or portion of the property is destroyed

Pure risks. These are risks that involve only a chance of loss.

Speculative risks. These are risks which can give either a gain or loss

Re insurance. This is when an insurance company which has under taken to compensate another firm or person against a big loss such as destruction of a factory also insures itself against such a big claim with another insurance firm. So that it can ask for contribution when the claim is made

Over insurance. This is where the insured over states the value of the property when applying for insurance. However he will be required to pay a higher premium but in the event of loss, he will be compensated only the true value

Under insurance. This is when the insured under declares the value of the property and he is charged less premium. However in the event of total loss, he is compensated only the real value insured.

N.B over insurance and under insurance may lead to cancellation of insurance contract

Surrender value. This is the money given back to the insured when he decides to cancel the insurance contract before the period ends. It is the amount of premium refunded to the insured who cancels the insurance contract

Actuary. This is a professional person or an expert employed by the insurance company who has skills in assessing and calculating premium

Renewals. This consists of effecting the contribution of a contract for a further period. When the insurance contract ends, the insured may apply for another contract. This is referred as renewal of the insurance contract

Pooling of risk. This is where everybody exposed to a risk contributes some money to a common insurance pool from which the few who actually suffer losses will be compensated

An under writer. This works on behalf of the insurer and his/her work is to assess and analyze the loss of the insured

PRINCIPLES / DOCTRINE OF INSURANCE

Insurable interest. This refers to the interest one has in a property or business he is insuring. That is whether he stands to lose in the event of such a property / business suffers the risk that is being insured. Thus one cannot insure a friend's property since in an event of risk occurring, he will not suffer the financial loss

Utmost good faith (contact of uberrimae fidei). This principle requires that a person who is applying for insurance to disclose all true relevant information and material facts about the property/ Business being insured. The insured is expected to say only the truth when applying for the insurance policy or when claiming the loss.

Subrogation. This states that in an event of a loss occurring and the insurer has fully settled an insured's claim, the insurer requires the rights that insured hands in the property destroyed. This implies that any gain made out of the loss belongs to the insurer.

Indemnity. This principle states that the insured must only be compensated for the amount of the loss, so that he is restored to his/ her original financial position before the loss occurred. This enables the insurance company not to make profits for the insured

Contribution. This principle states that if a person insures his property with more than one insurance company (Co insurance), In case of a loss each company should pay a certain stated amount of money towards that loss. However the total payments (contribution) from each insurable company should not be more that the value of the property destroyed

Proximate cause. This principle states that there must be fairly a close connection between the cause of loss and the actual risks insured against to enable an insured to seek compensation. For instance if Mr. Matisko has his property insured against theft, but was destroyed by fire, he cannot be compensated because the cause of the accident (fire) is not the insured risk (theft)

INSURANCE AND GAMBLING

Most people have a misconception that insurance is similar to gambling, however, there are quite a number of features that differentiate gambling from insurance and these include

Insurance aims at helping unfortunate / unlucky ones but gambling makes the lucky ones improve their status

Insurance is legally practiced and accepted but gambling practices are illegally accepted

Insurance, the event insured against may or may not happen, however in gambling the stipulated event must happen so as to decide the winner / lucky one

There are some formalities needed when under taking an insurance policy, like documents that have to be filled and signed, this does not happen in gambling

Insurance, one must have an insurable interest in the property he is insuring, however, in gambling, such condition does not exist

In insurance, money (premium) is normally paid in installments until the whole premium is accomplished, however, in gambling it is paid once and taken once

In gambling, all contribute money to the game, but insurance, one party (insured) contributes the money

Insurance is of great help to entrepreneurs since it provides confidence of the property/ business survival, whereas, as gambling is only a loss to the society

Similarities between insurance and gambling

- ✓ In both cases, many people contribute towards a common pool
- ✓ At least two or more members are involved ie in insurance there is insured and the insurer while in gambling there are gamblers
- ✓ In both cases , either chance or misfortune determines he who takes money from the pool
- ✓ Many people contribute but one or few take the money
- ✓ They both involve some element of gaining by either party ie if the risk does happen, the insurer takes all the money while gambling, the winner benefits.

TYPES OF INSURANCE POLICY

Personal insurance / life assurance. This may involve whole life policy where one pays premium and in an event of death, the insurer pays the beneficiaries of the dead, also an entrepreneur may insure the life of his debtors, such that in the event of death, the insurer will pay him / her amount owed by the customer

Fire insurance. This policy protects an entrepreneur's business against loss arising from fire outbreak, like compensation for the loss of business property and stock. Fire and special peril policy safe guard an entrepreneur against fire damages and the consequential losses arising from it

Theft and burglary. This policy may be taken by an entrepreneur to protect from loss arising out of theft or burglary of the business merchandise, property etc. this means that in the event of loss resulting from theft and burglary, the insurance company compensates the insured

Loss of profits. This policy will insure an entrepreneur against losses arising from operational losses in business operations. In this, an entrepreneur will be compensated to an agreed percentage of the loss suffered

Motor insurance. This will involve taking out a comprehensive motor insurance which would cover the insured's car against fire, accidents, theft etc. this is more preferable, as it offers more protection and more chances of compensation but it is again expensive due to higher premiums paid

Money at premises or in transit. This is taken out to insure an entrepreneur from the risk of loss, when money is being moved from one place to another, like if one is moving huge sums of money abroad to buy some merchandise, this policy may be taken to protect it as it is in transit

Employers' liability or workmen's compensation. This policy insures against workers who may be injured at the work place, like if a machine breaks an employee's leg accidentally, here the insurer takes the responsibility of compensating the worker but not an entrepreneur / business

Machinery break down and consequential loss. This policy may be taken by an entrepreneur to protect him against loss arising from machine break down and consequential loss, such loss will involve reduction in production and loss in time and such a loss will be covered by the entrepreneur

Marine insurance. This involve marine cargo insurance that protects goods being transported on water by water vessels, it also includes marine hull insurance that covers the ship owner against loss or damage to the vessel and other legal liabilities incurred towards third party and passengers

Aviation insurance. This policy is taken out to protect an entrepreneur against loss arising from personal accidents and cargo damages due to air craft (by air transport)

Sickness policy. This covers against specified diseases or all forms of curable diseases. The insurer pays further medical bills of the insured and other expenses involved depending on the contract

Endowment policy. This is where payment of premium is made every year but for specified number of years. This policy is meant to benefit the insured after he has retired from his job or during his old days.

DOCUMENTS USED IN INSURANCE

Proposal form. This is an application for provided by the insurer requiring his/her details of the property and risk to be insured.

Contents of a proposal form

- ✓ The applicant's name and address
- ✓ The occupation and location of the applicant
- ✓ The age of the applicant
- ✓ Name and the insurer
- ✓ The risk to be insured
- ✓ The policy to be bought
- ✓ The sum insured
- ✓ First insurance or last insurance
- ✓ Any precautions taken against the risk
- ✓ The signature of the applicant
- ✓ The declaration of the applicant that the information disclosed is true
- ✓ Any other relevant facts about the property insured.

Claim form. This is a form that an insured fills and presents to the insured in an event of a loss happening, it shows fill details of the loss

Cover note. Is a proof that premium has been paid to and accepted by the insured who undertakes to indemnity or compensate the insured.

THE INSURANCE POLICY/ CONTRACT

Insurance contract is a document that states the relationship between the insurer and the insured.

Purpose of insurance policy to the insured

- ✓ To aid compensation of the insured in case of occurrence of the risk insured against
- ✓ To act as evidence of insurance contract between the insured and the insurer
- ✓ To provide collateral security to the entrepreneur ie the premiums
- ✓ To promote individual responsibility of the insured by fulfilling contractual obligations
- ✓ To encourage a saving culture among entrepreneurs
- ✓ To enable undertaking of risks in business by entrepreneurs

BASIC STEPS IN TAKING UP AN INSURANCE POLICY

Inquiring about the best insurance company. This is the act of finding out the best company for insuring the property of a person / business. It takes place after developing an idea of insuring something. An inquiry can be done by the would be insured either through approaching different insurers or through approaching middlemen i.e brokers and agents.

Deciding on which insurance company and type to get along with

Checking the budget and deciding on the money to pay for insurance

Filling and signing an insurance application form called a proposal form. It includes the names of the applicant, location and address, insurance policy and any other relevant information.

Calculating of premiums. Basing on the information given in the proposal form, nature of the risk to be insured, value of the property and duration to be paid by the entrepreneur.

Issuing an insurance policy. Depending on the policies of the insurance company, a month after payment of the first premiums an insurance policy will be issued. This is a document that represents a contract between the insured and the insurer in respect to their insurance arrangement

Filling a claim form. This principle of proximate cause will be used here. This gives full details of loss which must be correct. The basic claim form has be filled and submitted by the insured, the insurer then assesses the extent of the loss. On receipt of the survey report, insurer pays due to compensation.

Surveying of damaged property. The insurance company after receiving the claim form may arrange for the survey of the property in order to assess the extent of the loss. The company sends loss assessors who prepare a survey report and submit it to the insurer.

Payment / compensation imply the end or termination of the insurance contract. If the person desires fresh protection to be arranged, a similar procedure will be followed to get fresh insurance cover.

Procedure for claiming compensation from an insurance company

- ✓ Notifying the insurer of the loss by presenting a police report
- ✓ Filling a claim form, showing full details of the loss
- ✓ Surveying of the damaged property by the assessor who is sent by the insured to determine the loss of the insured
- ✓ Terminating of the insurance policy upon compensation of the insured by the insurer on receipt of the survey report from the assessor.

Circumstances under which an insurance policy may be terminated

- ✓ In case of expiry of the insurance period ie lapse of time
- ✓ When compensation has been made ie by performance
- ✓ In case of an agreement between the insurer and the insured
- ✓ In case one fails to display utmost good faith at the time of taking out insurance.
- ✓ If there is breach of contract e,g failing to pay the premium on agreed time
- ✓ In case of operation of law ie court action
- ✓ In case of destruction of the subject matter
- ✓ In case of frustration ie death, insanity etc

BENEFITS AND IMPORTANCE OF INSURANCE TO A BUSINESS

It allows individuals and business to save money that can be used to unexpected emergencies

An entrepreneur is assured of business continuity as a result of the compensation after the loss has occurred. This assurance of business continuity gives the entrepreneur confidence, stable earning, growth and expansion

Customers increases their trust in the business as a result of the assurance in his business continuity

The property of the business people are guarded against all risks like factory against fire. This gives confidence to entrepreneurs to undertake business operations

They act as trustees and references to their clients who would like to get loans from commercial banks. This is because after a long period of working age of the company and investments can be lent out to earn interests of the insurance policy

Insurance policy (contract) document is used as security when applying for a bank loan usually prefer security that is insured because they guarantee loan repayment

It promotes international trade, because entrepreneurs are able to import and export their goods. The entrepreneurs also are able to insure their goods against numerous risks in foreign trade

Insurance companies pay taxes and therefore raise government revenue used for national development

Responsibilities of insurance companies to the business community

- Reduction of costs like workman’s compensation, public liability policy.
- Promoting trade (international trade) by issuing policy covering goods in transit

- Ensuring continuity of business by giving compensation
- Safeguarding property of business men against all risks
- Acting as trustees for the businessmen by looking after the property of deceased
- Enabling business people to save money that can be used to cover emergencies
- Compensation in case of loss
- Providing insurance policies which are used as collateral security to acquire loans
- Encouraging investment confidence in the business community
- Educating the business community like campaigns on safety and health care.

CHALLENGES FACING THE INSURANCE INDUSTRY IN UGANDA

The majority of the people in Uganda are peasants and therefore poor. They do not have property worth insurable

Many people are not well sensitized or enlightened about insurance. They are ignorant and are not willing to undertake insurance. They think insurance is wastage of money

Loss of trust among people in insurance business. Some insurance companies are reluctant to compensate the insured and others take long to settle the insured claim

Inflation has affected the insurance business because of increasing prices of goods and services. Inflation therefore increases the operational expenses of the insurance company and hence lowers the profits

Insurance companies are not widely spread throughout the country. They are only found in urban centers

Many businesses in Uganda operate on small scale and hence there is no need for insurance for example a hawker of ground nuts

Many insurance companies are still small and have limited capital expansion

There is excessive competition among the insurance companies such that some companies do not have clients and cannot make profits

Insurance companies are charged with high taxes by the government

Political instability may affect the insurance industry