MR OSHO TUTORS
Researcher || Educator || Career coach
Content builder || Mathematician
08135056422
Mroshotutors@gmail.com
Making the time right!

SECOND TERM E-LEARNING NOTE

SUBJECT: COMMERCE **CLASS: SS 2**

SCHEME OF WORK

WEEK	TOPIC
1 – 2	Co-operative Societies
3 – 4	Public Enterprises
5	Trade Associations/Chambers of Commerce
6	Industrial Combinations.
7-10	Insurance
11	Revision
12.	Examination

WEEK ONE AND TWO **Date: ____________**

TOPIC: CO-OPERATIVE SOCIETIES

CONTENT

1. Definition
2. Principles of Co-operative Societies
3. Types of Co-operative Societies
4. Features of Co-operative societies
5. Advantages and disadvantages of Co-operative societies
6. Sources of Finance for a Co-operative society

A co-operative society is a voluntary association of persons, businessmen, traders or organization with common needs and interests. The resources of members of are pooled together to promote the economic and welfare interest of the members.

PRINCIPLES OF CO-OPERATIVE SOCIETIES

Co-operative societies are based on the following principles.

1. Open and Voluntary membership
2. Democratic management and control:

Decisions are taken by voting and each member of a co-operative society has one vote in all decisions taken by the society. In other words, voting does not depend on members shareholding

3. Distribution of surplus (i.e. profits) based on participation or patronage
4. Neutrality in race, politics and religion
5. Encouragement of the habit of saving and thrift
6. Promotion of education of members
7. Protection of members from exploitation of normal market forces
8. Sale of only pure goods: All goods offered for sale must be good quality (not inferior or imitations)

TYPES OF CO-OPERATIVES SOCIETIES

1. **Consumers' Co-operatives Society:** This is formed by consumers who pool their resources together to buy essential commodities in bulk direct from manufacturers. Such commodities are then distributed or sold at reasonable prices to members.
2. **Retails Co-operative Society:** This is an association formed by many small independent retailers pooling their resources together and buying in bulk either from the manufacturers or wholesalers
3. **Wholesale Co-operative Societies:** Association of wholesalers buying in large quantities from the Manufacturer
4. **Producers Co-operative Society:** This is an association of producers of similar commodity who have come together for the promotion of the market for their products. They could also purchase tools and raw materials in bulk and share or sell them to members at reduced prices.

FUNCTIONS OF PRODUCERS CO-OPERATIVE SOCIETIES

a. Negotiation for better prices from buyers
b. Provision of Joint transport facilities
c. Provision of specialist advice
d. Provision of Information
e. Provision of short –term loans/Facilitation of loans from specialized institution e.g. World Bank Assisted **FADAMA Project**
f. Provision of Joint Storage Facilities
g. Education of Members

5. **Credit and Thrift Co-operative Society:** This is an association of low income earners who jointly pool their resources or fund together by contributing on a weekly or monthly basis. This type of society encourages saving habits among their members and grant loans to the members out of the accumulated fund. The Loan attract a low rate of interest. At times however, non-members too can borrow from such a society but at a higher rate of interest. At the end of the year, surplus will be distributed to members as dividends. The members can also be afforded the opportunity of purchasing household need like television, fridge etc.
6. **Multipurpose Co-operative Society:** This is formed by existing co-operative societies. They undertake a variety of co-operative activities that is profitable and serving the interest of members

EVALUATION

1. List six types of co-operation societies
2. State four distinguishing features and functions of each of the co-operative societies

FEATURES OR CHARACTERISTICS OF CO-OPERATIVE SOCIETIES

i. Perpetual existence
ii. Minimum of two members and no maximum limit to the number of members
iii. Liability to the members is limited to the shares held
iv. Members buy shares to contribute the initial capital; extra capital may be raised in from members in the form of loans
v. Shares are not transferable but can be withdrawal or added to at any time

vi. Democratic in nature
vii. Profit (surplus) is shared based on patronage
viii. It is separate legal entity
ix. Control is in the hands of management committee elected by members
x. The objective of co-operative society is to promote members interest.

ADVANTAGE OF CO-OPERATIVE SOCIETIES

1. It encourages thrift and saving habits among members
2. There is democracy inherent in its control and management
3. Loans are more easily obtained by members
4. Perpetual existence: i.e. death of members cannot bring the society to an end
5. It facilitates improvements in member's standard of living
6. They prevent loading of goods
7. Helps in marketing members products
8. They encourage investments
9. They encourage production of high standard products
10. They could easily obtain loan facilitates from banks or government agencies
11. They are very prominent in consumer protection activities

DISADVANTAGES OR PROBLEMS OF CO-OPERATIVES SOCIETIES

1. **Problems of loan recovery –** Loan recovery is difficult and in some instances even impossible.
2. **Inefficient Management –** Member elected to manage the business may lack experiences.
3. **Inadequate Capital –** This occurs as a result of the prevalence of low income earners in their membership
4. Misappropriation and embezzlement of funds
5. High level of illiteracy among members
6. Indiscriminate enrolment of members

SIMILARITIES BETWEEN CO-OPERATIVES SOCIETIES AND LIMITED LIABILITY COMPANIES

1. Both are legal entities
2. Members buy shares
3 They hold Annual General Meetings **(AGM)**
4. Both are registered
5. The shareholders (members) receive dividends
6. Both have perpetual existence

DIFFERENCE BETWEEN CO-OPERATIVE SOCIETIES AND LIMITED LIABILITY COMPANIES

	Points	Co-operatives Societies	Limited Liability Companies
1.	Formation	Registered under Co-operative law of the ministry of commerce	Incorporated under CAMA 1990

2.	Management	By elected Management committee	By elected Board of Directors
3.	Distribution of Profits	On Patronage basis	In proportion to number of shares held
4.	Members voting rights	Equal	On the basis of their shareholding
5.	Aim	To promote members welfare	To maximize profits

SOURCES OF CAPITAL/FINANCE FOR A CO-OPERATIVE SOCIETY

a. Voluntary contribution of members
b. Retained profits (ploughed – back profits)
c. Fines and other special levies
d. Loans from banks
e. Loans from government agencies and independent agencies (e.g. N. G. O'S)
f. Loans from umbrella bodies such as credit unions etc

EVALUATION

1. State and explain five services rendered by co-operative societies to their members
2. Give five main similarities and differences each between a retail co-operatives society and a public limited company

GENERAL EVALUATION QUESTIONS

1 Explain five benefits that would be derived when a sole trader admits other partners
2 State five features common to both public and private limited companies
3 State five provisions of a memorandum of association
4 State five disadvantages of international trade
5 Explain five measures a country can take to solve its balance of payments problems

WEEKEND ASSIGNMENT

1. The main aim of credit and thrift societies is to (a) Settle disputes among members (b) Educate their members (c) Secure loans for members (d) Encourage savings among members
2. In which of the following business units are profits shared on the basis of membership patronage (a) Public enterprise (b) Partnership (c) Co-operative society (d) Public Limited Company
3. Which of the following interest holders are settled first in case of a company's liquidation (a) Board of Directors (b) Debentures holders (c) Ordinary Shareholders (d) Preference Shareholder
4. The affairs of the co-operative society are in the hands of the (a) Board of directors (b) Executive members (c) Board of trustee shareholders
5. When a company is issued with the certificate of incorporation it is allowed to (a) Acquire premises (b) Come into existence (c) Commence trading (d) Raise Capital

THEORY

1. Name the five major types of business units

2. State four problems of retail co-operative in Nigeria

READING ASSIGNMENT
Essential Commerce for SSS by O. A. Longe Page 166 - 172

WEEK THREE AND FOUR **Date: ____________**
TOPIC: PUBLIC ENTERPRISES
CONTENT
1. Features of Public Enterprises
2. Reasons for government ownership of Public Enterprises
3. Advantages and Disadvantages of Public Enterprises
4. Sources of Capital/Finance for Public Enterprises.

PUBLIC ENTERPRISES
Public Enterprises are business organizations established, owned, managed and controlled by the government. They are also referred to as Public Corporations or Statutory Corporations.
Examples of Public Enterprises in Nigeria are PHCN, NNPC, NRC, NPA e.t.c.

METHODS OF FORMATION OF PUBLIC ENTERPRISES
1. Creation by Act of Legislature or a Decree
2. Nationalization of private industries

Nationalization is the bringing of ownership and management of private industries under the control of the government. Nationalized industries are therefore industries taken over from private owners by the government.

FEATURES OF PUBLIC ENTERPRISES
1. They are owned and financed by the government
2. They render essential social services
3. Profit making is not the main motive of their establishment.
4. They are usually monopolies
5. They are established by Acts of Parliament or Decrees
6. They are managed by appointed Board of Directors
7. Their employees are public servants
8. Huge amount of capital is involved in their establishment.
9. They are separate legal entities
10. Their services are restricted
11. They enjoy perpetual existence

REASONS WHY GOVERNMENT OWN PUBLIC ENTERPRISES
1. The large capital requirement which is needed in some business cannot be provided by private interests
2. For price control and consumer protection purposes i.e. to prevent exploitation of consumers
3. To control or curtail private monopoly powers
4. For strategic and security reasons

5. To generate revenue for the government
6. To prevent foreign dominance of the economy
7. To provide essential services to the citizens at affordable prices.
8. To avoid wasteful duplication of facilities and services inherent in market competition.
9. To provide employment opportunities to the people
10. To ensure even distribution of income.
11. To ensure constant supply of goods and services and checkmate the activities of hoarders of goods
12. To control vital economic activities eg. NNPC, FAAN.
13. To promote rapid and even economic development of the whole country eg. Rural industrialization
14. To encourage research and development activities.
15. To provide a model of efficient management in some social and economic activities eg. State farms, universities, schools, hospitals etc.

EVALUATION

1. List and explain six reasons for government ownership of enterprises.
2. State and explain five feature which are common to public corporation and public limited companies

ADVANTAGES OF PUBLIC ENTERPRISES

1. They ensure steady supply of essential services
2. They prevent exploitation of consumers
3. They provide employment opportunities for people
4. They generate revenue for the government
5. They enhance the provision of infrastructural facilities
6. They check duplication of the facilities and wasteful competition
7. They ensure the development of critical capital intensive projects eg. Steel industry.
8. They provides essential services at reasonable costs
9. They check foreign domination of the economy
10. They uphold and strengthen national security
11. The are accountable to the public – they have to submit their annual reports/accounts to the Parliament
12. They ensure availability of enough capital for projects

DISADVANTAGES OF PUBLIC ENTERPRISES

1. Their operations involve very large capital requirements.
2. Very slow decision making process, bureaucracy and red tapism
3. Prevalence of large scale fraud, corruption and mismanagement.
4. Frequent government/political interference of its activities and management
5. Politicization of appointments.
6. Inefficiency of its operation e.g poor and irregular services.
7. Poor and epileptic funding by the government.
8. Diseconomies of large scale production
9. Non-challant attitude, lack of commitment, laziness, negligence on the part of workers.

10. Dependency on the public treasury for funds. Public enterprises are usually chronic loss-makers and as such constitute a drain on public funds.
11. It lacks privacy.

SOURCES OF CAPITAL/FINANCE FOR PUBLIC ENTERPRISES

1. Grants and subvention from the government.
2. Grants from foreign countries or international organizations.
3. Internally generated revenue/retained profits
4. Loans from banks or other financial institutions
5. Trade credits (i.e. credit purchases)
6. Hire purchase
7. Equipment leasing
8. Sale of Assets

EVALUATION

1. Explain five difference between public limited companies and public corporations
2. State six disadvantages of public corporation

GENERAL EVALUATION QUESTIONS

1 State three uses of capital as a factor of production
2 State four uses of land as a factor of production
3 State five features of a partnership business
4 Explain five reasons why government participate in business
5 State five advantages of a public limited company

WEEKEND ASSIGNMENT

1. The most common form of business unit in West Africa is (a) Co-operative society (b) Joint stock company (c) Sale proprietorship (d) Public corporation.
2. Which of the following would not affect the form of a business unit (a) Availability of raw materials (b) The type of business (c) Number of persons involved (d) The capital size.
3. The functions of public corporations include the following except (a) Providing even development (b) Providing employment opportunities (c) Providing essential services to the public (d) Maximizing profits for the board members
4. Which of the following is established to provide essential facilities to the citizens (a) Public limited company (b) Public corporation (c) Sole proprietorship (d) Co-operative society
5. Which of the following is a public monopoly (a) Lever Brother Nigeria Plc (b) PZ Nigeria Plc (c) National Electric Power Authority (d) United African Company Ltd

THEORY

1. List the Sources of finance available to a Public corporation.
2. State four advantages and two disadvantages of public corporations

READING ASSIGNMENT

1. Essential Commerce for SSS by O. A. Longe Page 173 – 177

2. Comprehensive commerce for SSS by J. U. Anyaele Page 311 – 316

WEEK FIVE **Date: ____________**

TOPIC: TRADE ASSOCIATION/CHAMBERS OF COMMERCE

CONTENT

1. Definition of trade association and chamber of commerce
2. Features of trade associations/chambers of commerce
3. Functions of trade associations/chambers of commerce

TRADE ASSOCIATIONS

Trade Association is an association of traders or producers engaged in the same line of trade whose major aim is to protect and safeguard the interest of their members as well as their business. Examples are M.O.A.L.S (Motorcycle Operators Association of Lagos State)

FEATURES OF TRADE ASSOCIATION

1. Membership is voluntary
2. They are regionally based
3. Its main aim is to protect or safeguard the interest of members
4. It is financed from the subscriptions paid by members.

FUNCTIONS OF TRADE ASSOCIATIONS

1. They assist needy members financially and morally.
2. They ensure uniformity in the mode of operation of their trade
3. Provision of information (i.e. trade/technical/credit information) for members.
4. Settlement of dispute among members.
5. Education of members about latest developments affecting their trade.
6. Fixing of minimum prices for their goods/services.
7. Promotion of research work for the benefit of all members.
8. Ensuring the maintenance of high standard in the quality of goods/services.
9. Regulation of the activities of members and maintenance of professional ethics.
10. Safeguarding and advancing the common interest of members.
11. Serving as trade referees, especially on home trade
12. Liaising with the government on policies affecting their trade and their trade members e.g. by acting as pressure groups.

DISADVANTAGES OF TRADE ASSOCIATION

1. They sometimes restrict entry into their trade.
2. They reduce supply of goods in order to create artificial scarcity, thereby linking prices
3. They can hold the community to ransom, thereby causing crises (eg transporters)

REVIEW QUESTIONS

1. State five functions of trade associations
2. List four features of trade association.

CHAMBERS OF COMMERCE

A chamber of commerce is a voluntary association of businessmen, tradesmen and entrepreneurs from different commercial fields or various lines of business in a town, city or country who have come together to promote trade, commerce, industry, agriculture and mining in a particular town, city, area or country e.g. Lagos Chamber of Commerce, Industry, Mines and Agriculture **(LCCIMA)**

A chamber of commerce is not restricted to a particular trade (i.e. it embraces all industrial commercial activities such as manufacturing trade, transport, banking etc.

FUNCTIONS OF CHAMBER OF COMMERCE

1. They organize trade fairs and exhibitions
2. They promote both home trade and foreign trade
3. They co-operate with other chambers of commerce.
4. Collection and dissemination of information to all members and the general public
5. They settle disputes among members.
6. They advise government on matters of trade.
7. They issue certificate of origin.
8. They act as pressure groups
9. They act as watchdog in the administration of government laws
10. Education of members through seminars conferences etc.

MANUFACTURER ASSOCIATION

This is an association of producers that come together for the mutual economic and trade benefits of members.

AIMS AND FUNCTIONS OF MANUFACTURERS ASSOCIATION

1. They promote trade both local and foreign
2. They act as a pressure group
3. They attract foreign investors
4. They ensure the production of standard goods
5. They promote export of manufactured goods.

EVALUATION

1. State five functions of chamber of commerce.
2. Give two differences between a trade association and a chamber of commerce.

GENERAL EVALUATION QUESTIONS

1 List eight means of payment in business
2 Give five reasons for the protection of consumers
3 State five measures taken to protect consumers
4 What is a channel of distribution
5 Explain five advantages of home trade over foreign trade

WEEKEND ASSIGNMENT

1. Which union is formed by the workers of firms of similar lines of business to cater for their interests (a) Co-operative (b) Firms (c) Employee's (d) Trade

2. A voluntary body formed by members of a particular branch of trade or industry to represent the interest of members is known as (a) Industrial association (b) Co-operative society (c) Manufacturers' association (d) Trade association.
3. Which of the following advises members on tariff and currency regulations of other countries (a) Employers association (b) Trade union (c) Consumer association (d) Chamber of commerce
4. Which of the following is a voluntary association of businessmen and professionals formed for the purpose of promoting trade (a) Labour union (b) Employer's Association (c) Chamber of Commerce (d) Wholesaler's Association
5. Which of the following is a duty of the Employers Association (A) Procuring raw materials at regular intervals (b) Establishing a uniform wage scale (c) Negotiating with the government on sales (d) Discharging workers when production is low.

THEORY

1. What is a trade association?
2. State four features of a chamber of commerce

READING ASSIGNMENT

1. Essential Commerce for SSS by O. A Longe Page 177 – 180
2. Comprehensive Commerce for SSS by J. U. Anyaele Page 327 – 336

WEEK SIX **Date: ____________**

TOPIC: INDUSTRIAL COMBINATIONS/INTEGRATION

CONTENT

1. Definition
2. Reasons for industrial combinations
3. Forms of industrial combinations

INDUSTRIAL COMBINATION

Industrial combination (or integration) is the coming together of two or more firms in order to form one large economically stable firm.

REASONS FOR INDUSTRIAL COMBINATION

1. Firms may integrate in order to fight economic recession
2. The desire to reap the advantage of monopoly
3. To obtain stable prices.
4. To obtain raw materials from direct sources.
5. To reduce cost of production and increase profits
6. To meet statutory capital requirements necessary for operations e.g. banks
7. In order to achieve large scale of production.

COMBINATION OF FIRMS

1. **Vertical Combination:** This refers to the joining together of firms which are engaged in different stages of production/distribution.

Where the manufacturer secures control of the firm supplying him with raw materials the integration is said to be backward integration on the other hand, where the manufacture takes control of the demand for his product by taking over a firm that sells his products, the integration is a forward integration.

2. **Horizontal Combination:** This refers to the combination of firms at the same stage of the production process.
3. **Lateral Combination:** This is the fusion of firms in different lines of business.

FORMS OF INDUSTRIAL COMBINATIONS

1. **Cartel (Kartel):-** This is a voluntary association of firms engaged in the production and sale of the same product. The firms coming together retains their individual identity and independence e.g **OPEC** (Organisation of Petroleum Exporting Countries).

REASONS FOR FORMING CARTELS/AIM OF CARTEL

a. To control prices i.e. to keep up the prices of their products
b. Control output through the use of production quotas
c. To eliminate competition thereby reducing wastes
d To maximize profit for members
e To serve as a Political/Economic bloc capable of influencing world/economic affairs
f. To assist member countries and non-member countries and to improve trade relationship among members.
g. To maximize productive efficiency of members
h. To stabilize the market and the industry.

2. **Trust:-** This is a large amalgamation of different competing firms in different lines of business under a single control. In Trust, the merging firms will retain their identities but the trustee will take over the management and control i.e. the amalgamated firms are brought under a central control. Certificate will be issued to all members by the trustee.

DIFFERENCES BETWEEN CARTEL AND TRUST

	Trust	Cartel
1.	Members will lose their independence	Members will still maintain their independence.
2.	Trust is a complete merger	It is voluntary and members can withdraw
3.	It has a vertical or lateral structure	It is horizontal in structure
4.	Certificates are issued	No certificate is issued
5.	There is no quota system	There is production quotas

AIMS/OBJECTIVES OF TRUSTS

a. To bring the merging firms under central control.
b. To eliminate unhealthy competition.
c. To bring about increased and efficient production.
d. To reduce cost and eliminate waste.
e. To maximize profit.

EVALUATION

1. What is a cartel?
2. State three reasons for the existence of a cartel.

3. **Consortiums:-** These are teams of independent firms who combine resources together to execute a project which is either too large or too complex for an individual firm to handle. When the project is fully executed. The profit/loss is shared and the consortium is dissolved.
4. **Price Rings:-** These are formed when completing firms producing similar products come together and agree to fix uniform prices for their products. They usually set minimum prices below which no member may sell.
5. **Holding Company:-** These are firms that have brought controlling interest ***(equity shares)*** of 51% or more in other firms known as their subsidiaries. They are purely investment organizations.
6. **Amalgamation/Merger:-** This refers to the fusion (joining together) of two or more previously independent firms to form one new firm with the old firms completely losing their former individual identities. The new firm usually takes a new name.

REASONS WHY FIRMS MERGE/ADVANTAGES OF MERGERS

a. To raise large capital.
b. To control a larger share of the total market for a product.
c. To encourage research and development.
d. To enjoy the advantages of large scale production e.g. lower cost of production/managerial economies of scale.
e. It lowers the cost of production.
f. It discourages unhealthy competition and eliminates wastes.
g. To diversify the activities of the firm into other areas.
h. To mobilize a pool of specialized managerial skill drawn from the previously independent firms.
i. It prevents over production.
j. It saves the cost of advertisement.
k. It leads to control of outputs and stabilize prices.
l. To increase the efficiency of management where the acquired company is poorly managed.
m. Centralized management.

DISADVANTAGES OF MERGERS/INDUSTRIAL COMBINATIONS

a. It leads to monopoly.
b. It does not encourage specialization.
c. It denies consumers their right to make choice.
d. Absence of competition may reduce the quality of products.
e. It can lead to unemployment as some employees can be laid off.
f. It may force some other firms out of business.
g. Greater difficulty in managing a large firm will lead to a decline in efficiency.
h. Exploitation of consumers by monopolies.
i. Danger of over –capitalization.

EVALUATION

1. State five differences between cartel and trust.
2. Explain three reasons why some businesses merge.

GENERAL EVALUATION QUESTIONS

1 Explain five factors affecting the choice of transportation of frozen products
2 State five disadvantages of air transport
3 State seven features of a public corporation
4 List and explain six new trends in retailing
5 State five features of a mail order business

WEEKEND ASSIGNMENT

1. A group of firms working together on a project too large or too complex for a single firm to undertake is referred to as (a) Consortium (b) Conglomerate (c) Co-operative (d) Partnership.
2. The coming together of two or more companies to form one big viable company is known as (a) Association (b) Cartel (c) Merging (d) Trust.
3. What is **NOT** an advantage of combinations (Monopolies) (a) Better opportunity to expand operations (b) Fall in the cost of selling (c) Pool of specialized managerial skills (d) danger of over-capitalization.
4. Which of the following takes place when firms producing at different stages in the same industry combine (a) Conglomerate (b) Vertical integration (c) Horizontal Integration (d) Cartel.
5. The merger of two companies producing the same type of product is an example of (a) Vertical integration (b) Horizontal integration (c) Lateral merger (d) An acquisition

THEORY

1. What is a business merger?
2. Give three disadvantages of business merger

READING ASSIGNMENT

1. Essential Commerce for SSS by O. A. Longe Page 180 – 184
2. Comprehensive commerce for SSS by J. U. Anyaele Page 331 – 336.

WEEK SEVEN **Date: ______**

TOPIC: INSURANCE

CONTENT

1. INSURANCE AND ASSURANCE
2. INSURANCE RISKS AND NON- INSURANCE RISKS
3. INDEMNITY INSURANCE AND NON-INDEMNITY INSURANCE

NOTES

Insurance is a contract whereby an insurer or underwriter agrees to compensate the insure in the event of his suffering a loss, in return for the payment of a premium by the insured.

The basic principle of insurance is the pooling of risks – A number of people who wish to cover themselves against a certain risk contribute to a pool or a common fund out of which compensation are made to those who actually suffer losses arising from that particular risk. The amount of premium depends on the probability of the risk. The greater the risk, the higher the premium and vice versa.

Compensation for victims will depend on the premium paid and the extent of losses suffered.

INSURANCE AND ASSURANCE

Insurance refers to events which are uncertain and which may or may not happen e.g. fire, burglary etc. It is based on probabilities.

Assurance refers to events which are certain and which are sure to happen e.g. death must happen. Example is life assurance. Assurance is based on possibilities.

EVALUATION

1. What is insurance?
2. Distinguish between the terms insurance and assurance.

INSURABLE RISKS AND NON-INSURABLE RISKS

Risks which are calculable (i.e. the likelihood of their occurrence is possible to be estimated) and for which premiums may therefore be assessed are called INSURABLE RISKS e.g. Motor Accident, Life, Marine, Theft, etc.

In other words, insurable risks are those risks whose likelihood of occurrence can be forecast, from past experience and for which a rate of premium can be calculated to enable the insurance company to collect enough premium to pay those who will unfortunate enough to suffer loss from such risks. Insurable risks hold out the prospects of loss but not again.

NON-INSURABLE RISKS

Also called un-insurable risks are risks that cannot be insured because their likelihood of occurrence cannot be calculated due to insufficient information being available to insurer to enable him estimate the premium. It holds the prospects of gain as well as loss.

EXAMPLES OF NON-INSURABLE RISKS ARE:

a. Loss of profit through competition.
b. Loss due to gambling.
c. Loss due to changes in taste and fashion.
d. Loss due to mal administration (i.e. loss incurred as a result of bad management).
e. Risk due to war.
f. Loss of profits through fall in demand.
g. Speculation.

INDEMNITY INSURANCE AND NON-INDEMNITY INSURANCE

Indemnity insurance is the type of insurance in which the insured can be restored to his former position before the incident occurred by receiving compensation. Examples are insurance against fire, marine, burglary etc.

In non-indemnity insurance, the insured cannot be restored to his former position before the incident occurred. This insurance is not purposely for equating the loss with the compensation. Examples are life assurance and personal accident insurance.

EVALUATION

1. What is meant by the term insurable risk
2. Distinguished between indemnity and non-indemnity insurance.

GENERAL EVALUATION QUESTIONS

1 Explain five circumstances when an insured may not be indemnified
2 Explain the following terms (a) insurable risks (b) non insurable risks
3 Give five main differences between a retail co – operative society and a public limited company
4 Explain five functions of the Central Bank of Nigeria
5 Explain five reasons why many small businesses turn into private limited companies

READING ASSIGNMENT

Essential Commerce for SSS by O.A. Longe Page 185 – 201

WEEKEND ASSIGNMENT

1. Which of the following risk would an insurance company not be prepared to cover
   (a) death resulting from HIV (b) change in fashion (c) theft of property (d) loss of cash in transit
2. The aid to trade responsible for compensating traders on loss suffered in the day-to-day business operation is (a) warehousing (b) insurance (c) transportation (d) advertising
3. Which of the following is a non-insurable risk (a) cash-in-transit (b) fire
   (c) consequential loss (d) speculative venture
4. The sum which the insured pay periodically to his insurance company is called
   (a) brokerage (b) commission (c) indemnity (d) premium
5. The incidence of loss that would have paralysed commercial activities are heaped on
   (a) banking (b) communication (c) advertising (d) insurance

THEORY

1. List four examples of non-insurable risks
2. Distinguish between insurance and assurance.

WEEK EIGHT **Date: ____________**

TOPIC: INSURANCE

CONTENT

1. The principle of Insurance
2. Types of Insurance

NOTES

PRINCIPLES OF INSURANCE

There are six main principles which underlie insurance contracts and which must be present for the contract to have validity. These principles are:

1. **INSURABLE INTEREST:** The person who takes an out insurance policy (i.e. the insured) must have an interest in the subject matter of the insurance policy. This means that so far as the subject matter is concerned, the insured must have a benefit from its existence and it must be shown that he will suffer damage or injury from its loss e.g. the owner of a house is said to have insurable interest in that house but the tenant of the house has an insurable interest in his property within the house. The owner of the house can insure his house where as the tenant can only insure his property within the house.
2. **UTMOST GOOD FAITH (i.e. UBERRIMAE FIDEI)**: Both parties to the insurance contract must deal openly and honestly with each other and disclose all relevant facts. It is essential that the insured tells all material facts which would affect the premium which the insurer charges. In other words, the contract of insurance is one of “uberrimae fidei” where the proposer(i.e the insured) must act with the utmost good faith and produce all relevant facts to the insurer. If, later the insured is found to have provided the insurer with incorrect information (e.g as to the age or value of the property) or to have concealed certain facts, then the contract of insurance can be declared null and void without return of premiums. The insurer too, must disclose the exact terms of contract as well as all material facts he has about the risk to the insured(i.e the proposer).
3. **INDEMNITY:** Indemnity is the compensation given to the insured by the insurer in the event of his suffering a loss. Under this principle, the insurance company will help to restore the insured to his former position before the loss occurred. All types of insurance are insurance of indemnity except life assurance and personal accident insurance. Under a contract of indemnity, the policy holder is entitled to be placed in the same position after a loss, as before it, so that he makes neither profit nor loss.
4. **SUBROGATION**: Subrogation refers to the right, which a person has to stand in the place of another and enjoy all the rights and remedies of that person. The principle states the insurer, having paid the claim to the insured, is entitled to stand in the place of the insured against other parties who have caused the injury on which the claim has been paid. The insurer is therefore entitled to benefit from any claims which the insured has against a third party which can be used to reduce the damage suffered. Therefore an insurer who has paid on a burglary claim is entitled to the stolen goods should such goods be recovered later. The right to step into the shoes of another applies to all contract of insurance except life assurance and personal accident policies.
5. **CONTRIBUTION**: Where a person insures the same risk with more than one insurer and if a loss is incurred, the insured can only recover to the extent of the loss and nothing more. This means he cannot claim compensation in full from each of the insurance companies and thereby make a gain or profit. Therefore each of the insurance companies (insurers) will pay a certain proportion of the loss. This principle does not apply to life assurance and personal accident policies.
6. **PROXIMATE CAUSE**: This principle explains that the person insured can only be indemnified if the loss was one that directly and immediately from the risk insured against. In other words there must be a close connection between the risk insured against and the cause of the loss. E.g. a claim for death benefits under a personal accident policy would only be paid if the insured died from accident and not from illness.

EVALUATION

1. A. Explain the principle of indemnity

B. Why is it not applicable to life policies?

2. Insurance may be described as a " pooling of risks". Explain what this statement means.

TYPES OF INSURANCE

There are various risks which a business should/could insure against. These constitute the various types of Insurance, namely: i) Bad debts ii) Goods in transit iii) Group insurance iv) Cash in transit v) Fidelity guarantee vi) Plate glass policy vii) Burglary, theft , robbery viii) Consequential loss ix) Employer liability x) Aviation insurance xi) Motor vehicle insurance xii) Fire xiii) Life insurance xiv) Marine insurance xv) Export credit guarantee xvi) Contractor all risk insurance xvii) Agricultural insurance xviii) Personal Accident insurance xix) Pension or superannuation schemes xx) Pluvius policy

EVALUATION

1. List five types of insurance policies that can be taken by a trader.
2. State and explain three principles of insurance.

READING ASSIGNMENT

Essential Commerce for SSS by O.A Longe page 185-200

GENERAL EVALUATION QUESTIONS

1 Mention any five government legislations aimed at protecting the consumer
2 State any five sources of capital for a public limited company
3 Describe five services rendered by thrift societies to their members
4 Explain five problems of using rail transportation in Nigeria
5 Explain three ways by which banks grant credit to their customers

WEEKEND ASSIGNMENT

1. Which of the following does not permit the insured to make a profit out of insurance a) utmost good faith b) proximate cause c) insurable interest d) indemnity
2. The primary objective of insurance is to a) prevent accidents b) meet uncertainties in the future c) give loan to businessmen d) control the flow of cash
3. A tenant was not compensated along with the landlord when the house he was living in got burnt. This is in line with the principle of a) proximate cause b) subrogation c) insurable interest (d) indemnity
4. If an assured as taken an insurance policy against death by accident and actually dies of malaria fever, which of the following would prevent his beneficiary from being compensated a) subrogation b) proximate cause c) contribution d) insurable interest
5. The compensation made to an insured for loss incurred in insurance is called
   a) commission b) interest c) indemnity d) premium

THEORY

1. Mention four types of insurance
2. State the principle of subrogation

WEEK NINE **Date: ____________**

TOPIC: INSURANCE

CONTENT

1. Forms of life policy
2. Accident insurance
3. Marine insurance

NOTES:

FORMS OF LIFE POLICY

1. Whole life Assurance: Premiums are paid throughout the lifetime of the assured and the sum assured is payable only when death of the holder of the policy occurs. This policy is taken for the benefit of dependants like children , wife and relations
2. Term assurance: This is to cover the life of the policy holder for a specific period only and the sum assured is paid only if the policy- holder dies before the specific date-i.e no payments is made if he survives till the end of that date . This policy is usually taken to cover the life of the holder during a journey e.g by air
3. Endowment Assurance (Policy) Premiums are paid over an agreed number of years and the sum assured is paid either at the end of that specific time or when the policy-holder dies, whichever happens first.
4. Annuities: This is a form of pension in which an insurance company, in return for a certain sum of money (paid in a lump sum or by installment) agrees to repay this money plus the investment income that it is able to earn over the expected life time of the investor or for a specified period.

ACCIDENT INSURANCE

This covers all types of insurance except life, fire and marine.

TYPES OF ACCIDENT POLICIES

A. MOTOR VEHICLE INSURANCE

This provides for the payment of compensation for the death or bodily injury to any person arising from the use of vehicles on the road. There are two types of Motor Vehicle Insurance.

1. **Third Party Insurance Policy**: This type of policy covers only the loss or injury suffered by the third party (i.e. passengers as well as property) but does not include loss or damage relating to the owner or his vehicle.

2. **Comprehensive Insurance Policy**: This covers the owner (driver), the insured vehicle ,third parties and sometimes the contents of the insured vehicle. This type of policy is optional i.e it is not compulsory under the law. Premiums paid under the comprehensive insurance policy are higher than those under third-party policies.

B. PERSONAL ACCIDENT INSURANCE POLICY

This policy covers the loss for partial or permanent deformity or disability arising from accident e.g loss of sight, loss of limb etc.

EVALUATION

1. Give five reasons why a life insurance policy may be taken.
2. Describe any five insurance policies which a large departmental shop owner may take.

MARINE INSURANCE

This consists of insurance cover for both ships and their goods(i.e. cargo) against risks at sea.

TYPES OF MARINE INSURANCE

1. Hull Insurance: This covers damage or loss both to the insured vessel (i.e ship) and the damage or loss caused by it to other vessels. It is subdivided into Time policy and Voyage policy.
2. Cargo Insurance: This covers goods and cargoes carried by a ship. It makes provision for the refund of the value of goods or cargo carried by the shipowner should the goods get lost or damaged at sea.
3. Ships owners liability: This type of insurance covers all risks and losses for which the owner of a ship or its employees are liable for negligence in handling of goods ,injury to crew on board, dock workers, passengers, damage to other ships or to ports(i.e installations at wharves, quays etc)
4. Freight insurance: This policy is taken to cover against refusal to pay charges for lifting the goods. Also this ship owner may be called upon to refund the freight to the owner of the goods if the goods do not get to their destination(i.e if the goods are lost in transit).

EVALUATION

1. Explain the following terms (a) Hull Insurance (b) Freight Insurance
2. Distinguish between Third Party Insurance Policy and Comprehensive Insurance Policy

READING ASSIGNMENT

Essential Commerce for SSS by O.A Longe page 185-200

GENERAL EVALUATION QUESTIONS

1 Give five advantages and four disadvantages of credit sales
2 Explain the different activities involved in industrial, commercial and service occupations
3 Explain five advantages and four disadvantages of transportation by pipelines
4 Give five functions of the Federal Airports Authority of Nigeria
5 State five aids to trade and explain how each facilitate trade

WEEKEND ASSIGNMENT

1. Fidelity guarantee insurance policy covers employees a) injured at work b) pension and gratuity c) handling cash c) retirement benefits
2. Time policy insurance is associated with a) motor vehicles b) ships at sea c) life endowment d) goods in transit
3. Which of the following policies compensates a businessman for profit lost while rebuilding his factory after a fire incident a) consequential loss policy b) engineering policy c) fidelity guarantee insurance d) accident policy
4. Which of the following types of insurance is usually excluded from the principle of indemnity a) fidelity guarantee b) life c) marine d) motor vehicle
5. The insurance policy that specifically covers damage to structure or machinery of a ship is known as……………. insurance. a) cargo b) hull c) ship owners d) time

THEORY

1. List four insurance policies a ship owner can take

2. List two examples of losses that can be compensated under personal accident policy

WEEK TEN **Date: ____________**

TOPIC: INSURANCE

CONTENT

1. Procedures of Insurance Contracts
2. Terms frequently used in Insurance Industry
3. The importance of Insurance to Commerce and Industry

NOTES

PROCEDURES OF INSURANCE CONTRACT

The various processes involved in obtaining an insurance are:

(a) An Inquiry- i.e. finding out about the insurance either directly from the insurance company or agents(brokers)
(b) Proposal Form – This is issued by the insurance company. It must be completed truthfully and honestly (i.e. with utmost good faith) by the person seeking insurance. It forms the basis of the contract between the insured and insurer.
(c) Premium: This is the amount paid by the insured, either in lump sum or by annual, monthly or weekly installment. If premiums are not paid subsequently when due, the policy ceases to be valid.
(d) Cover Note: After the first premium has been paid .the insurance company issues a cover note to the insured, giving him a temporary cover(i.e. protection) until enquiries are made by the insurance company and the insurance policy has been prepared .The cover note is usually valid for thirty days after which a fresh one is to be collected if the insurance policy is not yet ready.
(e) Insurance Policy: This is the legal document which gives details of the contract i.e. it set out the exact terms of the insurance contract.

TERMS FREEQUENTLY USED IN INSURANCE INDUSTRY

1. Underwriter: This is a person or company who undertakes to cover a part (portion) of the risk involved in insurance.
2. Re-insurance: This is a situation whereby an insurer agrees to insure with another insurance company, all or part of the risk. By spreading large risk among many insurance companies, losses will be reduced. Re–insurance is the transfer of risk from one insurer to another. It provides additional security to the insured and all other policy holders.
3. Actuary: This is a person who assesses the risks involved in an insurance and calculates the premium relevant to that risk. He is also involved in handling matters concerned with pension funds.
4. Surrender Value: This is the amount in cash an insurance company will repay to an endowment policy holder if he wishes to discontinue prior to the date of maturity of the policy. It is usually calculated as a percentage of the total premium paid up to the date of surrendering the policy.
5. Jettison: This is the deliberate throwing overboard of cargoes in a ship in order to lighten the ship and prevent it from sinking.
6. Barratry: This refers to any act committed by the captain of a ship that is contrary to the interest of the ship owners.

EVALUATION
1. Define an actuary
2. Explain the terms a) surrender value b) re-insurance

THE IMPORTANCE OF INSURANCE TO COMMERCE AND INDUSTRY
1. It facilitates International Trade
2. It makes funds available for investment
3. It helps in reducing risks of businesses
4. It provides a means of savings and making provisions for the future
5. It serves as a collateral security to obtain loans from banks i.e. life assurance
6. It confers on the insured the benefits of tax relief or tax rebate i.e. life assurance
7. It provides employment opportunities for brokers , actuaries etc
8. It provides a sense of security giving confidence to businessmen to engage in commercial activities

EVALUATION
1. Explain the meaning of the word "underwriter" as it relates to insurance
2. State five benefits of Insurance to commerce.

READING ASSIGNMENT
Essential Commerce for SSS by O.A Longe page 185-200

GENERAL EVALUATION QUESTIONS
1 Give four similarities and four differences between hire purchase and deferred payment
2 State five reasons why a life assurance policy may be taken
3 Describe any five insurance policies which a large departmental store owner may take
4 Describe three types of risks that may be insured against under marine insurance
5 Differentiate between contribution and group insurance

WEEKEND ASSIGNMENT
1. Which of the following does not relate to Marine Insurance? a) floating policy b) time policy c) valued policy d) endowment policy
2. The term which refer to the deliberate throwing of cargo into the sea to save a ship from sinking is known as a) charter party b) Lloyds c) jettison d) re-insurance
3. The temporal document which is issued by an insurer when an insurance policy is being processed is a) contact note b) debit note c) credit note d) cover note
4. What covers the risk which an employer may suffer as a result of the dishonesty of an employee a) accident insurance b) fire insurance c) fidelity guarantee d) consequential loss
5. The primary objective of insurance is to a) prevent accidents b) meet uncertainties in future c) give loan to businessmen d) control the flow of cash

THEORY
1. Explain the meaning of the term "premium" as it relates to insurance
2. List three benefits of insurance to commerce.