Principles of Business

Grade 10 March 2020

**SECTION 4: LEGAL ASPECTS OF BUSINESS**

Objective: explain the concept of contract; Definition and concept of a contract.

A **contract** is an agreement, is any understanding between two or more parties. A contract is a specific type of agreement between two or more parties that is legally binding and enforceable in a court of law.

A contract therefore has legal implications for the parties who enter into a contract.  A mere agreement is not legally binding and therefore neither of the parties is liable if anyone breaks the agreement.

**What makes a contract different from an agreement?**

A contract requires not only an agreement between parties but also something of value must be passed from one party to the next to make the contract binding. For example, you offer to sell a friend your used text books for $1000.00. After inspecting your textbooks the friend agrees and pays $1000.00. The $1000.00 paid here is the consideration i.e. something of value that is passed from one party to the next.  Consideration is the price paid for a promise.  You promised to let your friend have your textbooks if he paid $1000.00. This $1000.00 makes the agreement binding.  You are therefore obligated to deliver the books to your friend and cannot decide to sell the books to someone else or to ask for a higher price.

Your neighbour asks you to mow his lawn after which he will pay you $200.00. You accept this offer and mow the lawn. The work done here is an act of forbearance. You are giving something of value to your neighbour to receive payment for the job. The consideration in this case is the work done by you. It is the price that you have paid for the promise to be paid money for the job.  Consideration passes from promise to promise.

*Objective. identify the types of contracts; Simple, specialty.*

There are two main types of contracts, SIMPLE and SPECIALTY contracts.

A simple contract can be made orally, in writing or by the implications deemed from the actions of the parties. It needs no special form; it may be by word of mouth (orally) or in writing (some simple contracts must be in writing) or it may be implied by conduct (indicated by actions). Simple contracts are the most frequent form of contract undertaken.

For example: Taking a taxi, going into a restaurant to eat, purchase items in the supermarket or going to the hair salon.

A specialty contract must be signed by the parties sealed, for example with a company seal and finally it must be delivered.

•  Signing – the contract is signed by all the parties involved.

•  Sealing – the contract is attached with some form of raised seal.

•  Delivery – the contract is placed (or touched) by the person to whom it is delivered. All parties must have a copy.

*Examples of specialty contracts include*

1. Mortgages and leases for over three years

2. Sale of land

3. Contracts of insurance

4. Hire purchase agreements

5. Transfer of company shares

6. Assignments of copyright

Objective: describe the characteristics of a simple contract;

Offer and acceptance, competence of parties, intention to create legal relations, consideration.

***7 Business Elements of a Simple Contract***

***1*. Offer and acceptance.**

An **offer** is an indication by one person to another of their willingness to **contract** on certain terms without further negotiations. The offerer is the party that makes the offer and the offeree is the person that the offer is being made to. There must be a clear offer and clear acceptance for a contract to be binding.

**Difference between an Offer & an Invitation to Treat**

An invitation to treat is not an offer but an invitation to bid or bargain for an item. For example, at an auction persons may bid on various items presented.  An invitation to treat also occurs when goods are advertised for sale in the media or in shop windows. Goods in a shop window or goods advertised are not an offer by the owners of the goods but are technically an invitation for interested persons to make an offer.

**Conditions under which Offer and Acceptance are Communicated**

An offer must be very clearly made. An offer can be made to one person, a group or to the whole world. For example, offering a reward for a lost wallet is an offer to anyone finding the wallet.  In cases where there is a counter-offer the original offer is no longer valid.  A counter offer is an implied rejection of the original offer. Foe example: John offers to sell Paula a laptop for $10,000. Paula subsequently offers him $8000.00 as she thought $10,000 was too expensive. Paula has rejected John’s original offer and has made a counter-offer of $8,000.

Acceptance must also be clear. In the case of a counter offer a clear acceptance to the new offer must be identified.

Contracts may be made orally, in writing or they may be implied.

*Oral Contracts*

Are based on what the parties said. For example, asking someone to wash your car for payment

*Written Contracts*

Both offerer and offeree must sign the contract document

*Implied Contracts*

Implied Contracts are made by the observed actions of the parties involved. For example, someone who sits at a table in a restaurant and places an order has implied that he will pay for the food that will be served.

**Conditions for a Valid Contract**

(Written Contracts)

* It must have a date
* It must be signed, sealed and delivered
* It must be witnessed
* There must be no factual mistakes in it
* Performance time must not lapse
* It must be legal or legitimate
* Performance must be possible
* It must be registered
* It must be reasonable and fair

(Oral Contracts)

* The features must be present, active, enforceable or functional
* Performance must be possible
* Time must not lapse
* No minor, mentally ill or learning disabled person should also be noted

In addition to all the above, the following should also be noted: Any exclusion clauses must be made clear

Contract is invalid if goods sold/bought were stolen property, whether buyer was aware of it or not

Failure to comply with statutory requirements make the contact invalid

If parties become insolvent (unable to pay debts owed) contract can be voidable/invalid

**2. Consideration**

A benefit or a detriment received by one party for a promise to the other party to perform an act or to compensate for that benefit or detriment.

**Two aspects of Consideration**

* Owner’s Consideration-benefits or detriments that receiving party gets.
* Receiver’s consideration-promise that the receiving party make. In both cases one party is giving up something to receive something.

**Consideration is more than a Promise**

Consideration is different from a bare promise. A bare promise is one-sided, where only one party provides the consideration. E.g. Annie promise Ben $10 but later charge her mind, Ben cannot take her to court for breach of contract as Ben never gave any consideration in return for Annie’s promise.

Only Simple Contracts require consideration.

**Types of Consideration**

1. Executory Consideration-the price promised by one party in return for the other party is promise.
2. Executed Consideration-price paid by one party in return for the other party promise. The promise is yet to be done.

E.g. John agrees to cut Mary’s yard for $200. John cuts the yard (**Executed Consideration)** and Mary is yet to pay him **(Executory Consideration**).

1. **Contractual Capacity’**

In the legal environment, the term ‘capacity’ is used to identify who is eligible to enter into a contract. However, anyone who enters into a contract must be able to take responsibility for their actions associated with the contract. They must have contractual capacity to be eligible to enter into a contract. To ensure that persons are not exploited or taken advantage of by virtue of their particular circumstances at any point in time, the law makes certain provisions. Thus the following persons are not normally considered to have full capacity: •  Persons under the influence of alcohol or drugs are in a state that suggests temporary loss of full consciousness and, therefore, are unable to undertake any binding legal decisions. Sobriety must be proven in order for full capacity to be accorded to such persons.

 •  Persons of unsound mind, that is people who are diagnosed as being mentally ill, are not normally accorded full capacity to enter into a contract. The argument is that such a person would be unable to make an informed decision and thus take responsibility for the outcomes of the contract. However, if it can be proven that such a person is, without doubt, capable of entering into contracts, then they would be granted full capacity.

 •  Aliens, that is people who live in a country other than their own and who are not a naturalised citizen of the country, would not be granted full capacity if their country were at war or in conflict with the country in which they are living.

 •  Minors (people below the age of 18) have some restrictions on the type of contract that is binding on them. If a minor enters into a contract where they are not eligible to do so, the agreement is said to be void. For example, a minor can enter into a contract for the purchases of necessities, for example food and clothing (a cash transaction in a shop), but not for luxury items such as buying a car. A minor cannot enter into agreements that will result in them owing money (see also ‘exceptions’ shortly). There are two exceptions to capacity law regarding minors:

•  A minor could be permitted to enter into a contract if it can be proven that what is required by the minor is a necessity (for example, food, clothing and lodging).

 •  Minors may also be permitted to enter into contracts of educational value, for example a contract for a student educational loan.

1. **Legality**

The subject matter of the contract must be in agreement with the law of the land. A contract is illegal if it involves the transgression of a rule of law or where it is debased or immoral.

E.g. Contract prohibited by statues, contracts to defraud the revenue, contracts involving the commission of a crime, contracts with a sexually immoral element, contract against the interest of the state or a friendly country, contracts leading to corruption in public life, contracts which interfere with the course of justice among others.

1. **Possibility**

A promise to do something which is physical or scientifically impossible cannot be binding. E.g. promising to swim from Kingston, Jamaica to New York, USA.

6 & 7. **Genuineness of the consent of the parties and good faith**

 There must be agreement between parties and each party must have entered into the contract of his own free will. Concerning good faith there must not be undue influence, duress (the use of force or threats to make somebody do something), mistake, fraud or misrepresentation. *There must be no force, misrepresentation or fraud*. Persons should not be forced to sign a contract e.g. blackmail. They should not be lied to e.g. giving the wrong year of a car. Fraud may involve forging someone’s signature.

**Mistakes**

A mistake can affect an agreement.

1. Where an agreement has been reached on the basis of a mistake common to both parties.
2. Where there was a mere appearance of an agreement because of mutual or unilateral mistake.
* Common mistakes-when both parties it an agreement are suffering from the same misapprehension. E.g. John agrees to sell Mary some fruits and at the time of the agreement unknown to both of the fruits were damaged.
* Mutual mistakes-where both has negotiated at cross-purposes. E.g. Allen agrees to sell a horse to Robin but Robin thought he was selling the grey one when he was really selling the white one.
* Unilateral mistake-where one party only is mistaking and this party is yet to become aware of the mistake. E.g. Donald makes an offer to Bill but it is accepted by Sandra who knew it was made to Bill. Donald thinks mistakenly that it was Bill who accepted.
* **Consequences of mistake**- A person may obtain equitable relief or compensation from his obligations to a contract once the court has not declared it void for operative mistake.

**Misrepresentation**

When a mere representation is a false statement, there is misrepresentation. Representation is therefore seen as statements or group of statements made by seller to attract a customer to his product or to get someone to enter a contract with him.

Misrepresentation

* It means the false statement itself
* It means the act of making the statement false

A misrepresentation therefore is:

1. A statement give as fact that is untrue
2. Statement before a contract is made to buy or contract under false pretenses
3. When the injured party relied on the inducement to enter into a contract.

Misrepresentation may be

1. Innocent-no deceit intended where a misrepresentation is made with an honest belief in its truth
2. Fraudulent-is a crime and is sometimes known as deceit.

**Remedies for innocent misrepresentation**

A party who is a victim of misrepresentation and who is unable or unwilling to prove fraud may seek redress at common law where the contract can be affirmed and treated as binding. Where equity is concerned the party who made the innocent misrepresentation must ***compensate*** the other party for obligations assumed as a direct result of the contract.

**Remedies for fraudulent misrepresentation**

A party that has been deceived by this misrepresentation may ***sue*** for damages or discontinue the contract.

Objective: E*xplain* ways by which contracts may be terminated or discharged;

(a) *Concepts of discharge.*

(b) Types of discharge.

(c) Methods of discharge:

*(i) performance;*

*(ii) breach;*

*(iii) agreement;*

*(iv) impossibility;*

*(v) lapse of time; and,*

*(vi) death.*

**Ways in which Contracts may be Terminated (Discharge of Contract)**

**Discharge of a contract refers to the termination (release) of contractual obligations.**

Contracts may be brought to an end:

(a) By **performance** of the parties i.e. each party completing his obligations as stipulated by the contract.

(b) By **frustration/impossibility** i.e. an event through no fault of the parties that make one party unable to perform the contract. For example:  if one party suffers a prolonged illness which makes him unable to perform the contract.

(c) By **lapse of time** i.e. if the time limit set for the contract to be executed by both parties has been passed. For example, sellers of real estate usually require that the buyers pay the full balance on the property within a certain time period after the initial down payment has been made.

(d) By the **mutual agreement** of all parties. Meaning both parties agreed to discharge the contract.

(e)If one of the parties become **bankrupt** after the contract has been signed.

(f) By **changes in law** i.e. where a legal contract is rendered illegal through changes in law.

(g) By **notice** e.g. some firms require that employees give at least one month notice when resigning their positions.

(h) If **one party dies.**

(i) By **breach of contract**-When one party defaults on his part of the agreement i.e. he does not perform his part of the contract.

Remedies for Breach of contract:

* money damages (award includes a sum of money that is given as compensation for financial losses caused by a breach of contract),
* restitution (injured party to the position occupied prior to the formation of the contract), rescission (discharge both parties from their contractual obligation),
* reformation(equitable remedy wherein the contract is rewritten in a way that better expresses the intentions of the parties),
* specific performance (is an equitable **remedy** in the law of **contract**, whereby a court issues an order requiring a party to perform a **specific** act, such as to complete **performance** of the **contract)**

*Objective: \*apply the principles of a simple contract to cases;*

* *Case studies.*

**Validity of Contracts**

Mr. Larry was delighted to see a 50% discount on his favourite brand of shoes at a shoe store 15 miles away. He took some time off from work to travel to the store. When he arrived at the store he was told that that the brand advertised was sold out but he could choose from other brands available.  Mr. Larry was very angry and requested that he be refunded his travelling expenses.

**Is the owner of the store obligated to refund Mr. Larry his travelling expenses?**

**Answer**

The advertisement appearing in the newspaper is not an offer by the store but an invitation to treat. Therefore readers were being invited to make an offer for items advertised.  The owners of the store are therefore in no way obligated to Mr. Larry.

Hope stopped at a convenience store on her way home to purchase a few items.  She handed the cashier her credit card and was surprised when she was told that it declined. She apologized and explained that she did not know why her card declined but she will call the bank in the morning. Hope further explained that she had just enough cash with her to get home and so she could not pay for the goods. The cashier was very angry and asked the manager to intervene. The manager insisted that she pay for the goods.

**Is Hope obligated to pay for the goods?**

**Answer**

Hope has entered into a contract with the convenience store. She made the offer at the cashier counter when she presented the goods to be cashed. The cashier accepted the offer by cashing the goods.  In this situation it is up to the manager of the convenience store to accept Hope’s apology.

Martha offered to sell her prized orchid for $1000. Joseph telephoned her and expressed his great interest in that variety of orchid.  He however could not pay the $1000 she asked but could manage to pay $800. Joseph then promised that he will visit her later to pay for and collect the orchid.

Later that day Joseph visited Martha with the money to pay for the orchid. Martha informed him that she had already sold the orchid for $1000. Joseph was furious and told Martha that it was not only unethical for her to sell the orchid to someone else but it was also illegal.

Did a valid contract exist between Martha and Joseph? Explain the reason for your answer.

Answer

A valid contract did not exist between Martha and Joseph.

An offer was initially made by Martha. Joseph wished to obtain the orchid but could not pay the amount asked by Martha. He therefore made a counter offer of $800.

Martha did not clearly accept his offer and therefore a contract did not exist. Since a contract did not exist, Martha is allowed to sell the orchid to whomever she chooses.

Simple contracts in practice

Challenge

Your teacher will assign one of the following case studies to your group. Read it through carefully, taking all the factors into consideration before coming to a final determination. When it is your group’s turn, share your conclusion with the rest of the class, being careful explain how it was derived. Be prepared for a classmate having a counter-argument!

Case Study 1 Marva Loose put her car up for auction. Lucy Brown bid the highest amount of $95,000 for which she subsequently told Marva she would apply for a bank loan. Lucy’s bid was not accepted by Marva because she was not confident that Lucy would be able to get the bank loan to pay. Lucy was angry and said she will take Marva to court. What is the likely outcome?

Case Study 2 Dan Druff, having refused to sell his beat-up old car to Loopy Lou for $50,000, then wrote a letter to Loopy in which he mistakenly said he would sell the car for $35,000 when he really meant $55,000. Loopy Lou agreed to pay $35,000 but Dan Druff refused to complete, and Loopy Lou was very angry. What is the legal position?

Case Study 3 A contractor had agreed to erect some seating in a sports field for a pop concert for an agreed price. The organisers contracted a group to perform live. A week before the event was due to take place the contractor told the organisers that he needed to raise the price by 10 per cent because his workers were claiming expenses that he had not anticipated. This put the organisers under pressure to pay the extra amount because they would be greatly affected if the concert did not go ahead. What would a court rule?

Case Study 4 Dawn Break sold her chattel house to her friend Mark Time. At the time of the contract Dawn was suffering from prolonged depression and drug addiction and, as a friend, Mark was aware of this but went ahead with the contract. Dawn Break tried to call off the sale, but Mark Time took her to court. What do you think was the outcome?

Case Study 5 A father paid a large sum of money towards the purchase of a shop for his son and promised him that, if he kept up the residue mortgage payments, the son could have sole ownership. The son paid the mortgage for eight years but the father died before the whole mortgage was paid off. On death of the father, his widow, the stepmother of the son, claimed the shop should be hers. What is the legal position?

**CXC past paper May/June 2003 (General) Question 5.**

The following information appeared in a daily newspaper.

*Property Services, No. 56 Newpark Saletown
Public Auction Sale
On January 25, 2002 at 10:00 a.m.
I will offer for sale on the date and at the place mentioned above the following vehicle: One l999 Toyota Mini Bus
Terms of Sale:*

* *Strictly cash on the fall of the hammer.*
* *Vehicle on view on the morning of the sale.*
* *Vehicle will be sold as is where is.*

*– John Brown, Auctioneer.*

Tom Phillip who lived 20 miles away, drove to the address on the date specified with the intention of purchasing the minibus.

On arrival, he was told by the auctioneer that the minibus was no longer available and was removed from the items to be auctioned.

Tom Phillip became furious, threatened to sue for breach of contract and demanded a refund of his traveling expenses

(a) Define the term ‘contract’. (2 marks)

(b) (i) By attending the public auction sale, did Tom Phillip accept a firm offer? (1 mark)
 (ii) Give ONE reason for your answer in (b)(i) above (2marks)

(c) What do you understand by ‘vehicle will be sold as is where is’? (2 marks)

(d) (i) Define the term ‘breach of contract’. (2 marks)

 (ii) State ONE way in which a court may settle a breach of contract. (1 mark)

(e) State TWO ways by which a contract can be terminated or discharged (4 marks)

(f) (i) Should John Brown refund Tom Phillip’s traveling expenses? (1mark)

 (ii) Give ONE reason for your answer to (f)(i) above. (2 marks)

(g) (i) Advise Tom Phillip whether he will succeed in court against John Brown. (1 mark)

 (ii) Give ONE reason for your advice in (g)(i) above. (2 marks)

***Total 20 marks***

8. explain why documentation is necessary in business transactions;

The importance of record keeping in a business, including its value in satisfying requirements for taxation and auditing.

9. \*prepare business documents for various purposes;

Preparation of various business documents, including pro forma invoices, purchase requisitions, statements of accounts and stock cards.

**BUSINESS DOCUMENTS**

**Why Are Business Documents Necessary?**

In any organization where goods and services are being supplied, various documents are needed from the initial stage to the final stage of payment. Documents are needed to ensure the following:

1. To ensure that there is no confusion about what has to take place between the buyer and supplier.
2. They provide records/proof of activity which can be used in the future for activities such as legal matters, competition, discounts etc.
3. They are used to track and purchase stock in a timely manner.
4. They provide information for the accounting process.
5. The importance of record keeping in a business, including its value in satisfying requirements for taxation and auditing

(The following documents will be given as a homework exercise to research)

**DOCUMENTS USED IN TRADE**

* Letter of Enquiry
* Quotation
* Tenders
* Proforma Invoice
* Invoice
* Credit note
* Debit note
* Statement of Accounts
* Purchase Requisitions
* Stock Card
* Cash Discount
* Trade Discount

**TRANSPORTATION DOCUMENTS**

* Import License
* Bill of Lading
* Airway Bill
* Certificate of Origin
* Manifest
* Shipping note

**N.B**

* **CIF**-Cost Insurance Freight-All cost paid to the destination
* **FOB**- Free On Board- Only cost of goods paid

**WHAT IS DOCUMENTARY CREDIT AND HOW CAN IT BE USED TO FACILITATE BUSINESS**

Documentary credit is a document addressed by the importer’s bank to the exporter’s bank, guaranteeing payment when documents of title are handed over.

The benefits include:

* Exporters are more confident in doing business as they are usually ensured payment
* There is an increase in the speed of payment transactions.
* The buyers appears more reliable, especially if they are unknown to the seller

## INSURANCE

Objective: Evaluate the principles upon which insurance is based;

*The concepts of:* (a) *pooling of risks;* (b) *subrogation;* (c) *proximate cause;* (d) *indemnity;* (e) *utmost good faith;* (f) *contribution; and,* (g) *insurable interest.*

### Insurance vs. Assurance

An agreement between an insurance company and an individual who wants the financial protection that compensation will be paid if a particular loss occurs.

**Insurance** is coverage for events that may occur e.g. fire, flood, theft etc. Insurance companies may or may not receive a claim on these policies. However, **assurance** is coverage for events that must occur e.g. death. There will always be claims made against this policy.

### What is insurable risk?

The risk which can be assessed in value or probability can be assessed e.g. fire, hurricane. The opposite is **uninsurable risk e.g.** you cannot take out a policy to insure gambling debts, fines imposed for speeding etc.

### What is pooling of risk?

This is putting all premiums from persons requiring similar insurance together in one common pool”. This allows for the payment of policies when the need arises. Insurance companies arrange or individuals or firms to pay a premium into a pool/fund that is held by them, if a loss is suffered then this pool will be used to compensate them even if they have not contributed enough money in the pool. Individuals or firms will benefit after the second or third premium has been paid.

### PRINCIPLES OF INSURANCE

Compensate for a policy will only be paid if the follow rules are followed:

1. **Insurable interest-** The insured must be the one who will suffer financially if an event occurs. However, a wife/husband can insure the other person.
2. **Utmost good faith-** One must be truthful in the declaration of information when seeking insurance. Thecompany as well should reveal all relevant information about the policy.
3. **Indemnity-** This is the principle by which the policy-holder will be compensated for lossesincurred. The idea is to restore that person/organization to the place they were **before** the loss occurred, i.e. no better or worse off. There should be no:
* Profiteering \* Over-insurance \* Under-insurance
1. **Proximate cause**- A claim will only be honored if the loss suffered is as a result of the insured risk happening e.g. if a house is insured for fire only and is destroyed by flood, compensation will not be given.
2. **Contribution -** If there is more than one company involved in the compensation, each will contribute a portion of the total to prevent profiteering. This is an aspect of indemnity.
3. **Subrogation -** Money paid takes the place of the article damaged, which will now be owned by theinsurance company. However, some insurance companies will offer a reduced sumand allow the person/organization to keep the damage article.
4. **Average clause -** The insured will be compensated in proportion to how he was originally insured.E.g. A person insured a house for $100,000 ten years ago and it is now worth$200,000. Part of the building was damaged and cost of repairs are $ 60,000. He will only receive$ 30,000 since the insured value is half that of today’s value.
5. **Legality-** A person cannot insure against his own wrongful acts to avoid responsibility for damages which may occur afterwards

Objective: Explain the various types of insurance policies; and, Types of insurance policies: life and *non-life.*

# TYPES OF INSURANCE POLICIES

Types of insurance policies: life and *non-life.*

**1. Life Insurance**

* Whole life policy - payable on death of insured (These persons will stop paying premium at 60). This is designed to allow someone else to benefit from the insured persons death. This gives the insured person some peace of mind that the family will receive financial support when the insured dies.
* Endowment policy – specific sum paid at a certain date or on death of policy holder, whichever comes first. The premium for this type is more expensive than the others.
* Term Policies- these are used as mortgage guarantees, therefore if a person dies before repaying the mortgage this insurance will pay the remainder of the debt for the insured.
* Unit linked policy-with this policy a part of the premium is used for life insurance and the other part is used as investment and can be withdrawn from the policy at any time.

**2. Motor Insurance**

*This is compulsory for all drivers by law. Motor insurance can take the following forms*

* Comprehensive: Coverage for both parties in the accident as well as injury or death of driver and passengers and loss of personal possession.
* Minimum legal cover-provides compensation for the third party on public road only
* Third party: Covers losses of the owner of the other vehicle involved in accident as minimum legal covers as well as property and legal fees
* Third party fire and theft-provides for minimum legal cover and third party cover as well as fire and theft.

**3. Business Insurance**

* **Fidelity insurance-**covers theft or loss due to fraud by the employees
* **Product Liability insurance-**covers a business if a customer takes legal action because they were sold unsafe goods by the business
* **Credit Insurance-** this covers loss to the business caused by the failure of customers to pay their debt
* **Public liability insurance -** this covers any individual who is accidentally harmed while visiting the business
* **Employee liability insurance-** Provides coverage for employee safety while they are on the job.
* Goods in Transit
* Plate Glass **–cover for** companies that have **plate** **glass** installed to enhance their visual and aesthetic appeal like showrooms, shopping complexes, restaurants, hotels, theatres, and stadiums.
* **Aviation Insurance**- covers against damage or death of passengers and crew.
* **Fire, Motor or Aviation Insurance**-This compensate for losses due to flood or broken pipes, fire and burglary.
* **Marine Insurance –** provides coverage for any vessel that sails for a particular voyage or period of time (from it starts until it ends)
* Cargo- provides coverage for loss or damage of goods while travelling from one port to another.
* Hull- **insurance** protecting the owners against loss caused by damage or destruction of waterborne craft or aircraft, which in turn gives the vessel owner a level of confidence and security in operating their yacht/ship on international waters.
* Freight-if the ship does not deliver the goods on time. Then this provides the ship owner with indemnity so they can repay the cost of not delivering the goods on time.
* Ship owner’s liability- gives coverage for injury of death of passenger and crew, damage to another ship and pollution.

**4. Accident Insurance**

* **Accident insurance-** discover a number of risks related to any type of property such as accidental damage to machinery, vehicle, vandalism, burglary, loss of animal or stock.

Objective: Explain how insurance facilitates trade.

*The value of insurance coverage in lowering the risks associated with business*.

#### THE VALUE OF INSURANCE COVERAGE IN FACILITATING TRADE

 Insurance can be used to promote, maintain and lower the risk associated with trade in the following ways:

1. It allows traders the comfort of knowing that in the event of loss, they can be compensated, whether directly or by the company transporting the goods. This is especially true if trader are sending goods across many miles (land /sea) from one country to another.
2. It helps individuals to achieve an improved standard of living by allowing persons to have goods which they might not have been able to get on their own.
3. It provides coverage against personal risks which individuals would not be able to manage on their own.
4. Some insurance companies provide a source of capital since they may also act as investors.

Whitcomb, Alan. Essential Principles of Business for CSEC: 4th Edition (p. 91-99. Hodder Education. Kindle Edition.