

# THE IMPORTANCE OF PROPER DECLARATION

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Because of the huge crime problem in South Africa, many people purchase insurance protection for their valuables. In doing so, they get peace of mind by transferring the risk to the insurer. At the same time, at the insistence of the insurer, they often must incur expense to have their homes, valuables and vehicles secured.

Insurers play a big part in the South African economy and provide jobs for many. They are in business and operate with the intention to make a profit for their shareholders while maintaining a reasonable solvency margins in order to pay claims, as well as their business expenses and employee salaries.

The basic requirement for a client to effect insurance is the submission of a proposal form or a memorandum, either directly to the insurer or via an intermediary. These documents give full details of the risk which forms the basis of the contract for insurance cover. It is expected that prospective clients will exercise the basic principles of good faith. They have a duty to disclose all the material facts (including that the property to be insured does, in fact, exist). The underwriter will evaluate the risk and ascertain if the basic principles have been respected. The evaluation of physical and moral hazard also plays a big part in the acceptance of a risk by the underwriter. In the event of a claim, many factors are taken into consideration before it is paid including proof of loss, cause of the loss (insured peril), contribution, insurable interest, underinsurance and average.

The practice of submitting a proposal form has evolved. A client can now communicate telephonically with certain insurers or brokers to request cover, thereby dispensing with the need to submit any form of documentation at application stage. Many insurance companies also accept the telephonic reporting of claims. It has become very important, if not essential, that the conversation between the client and the insurer is voice recorded and easily recoverable if needed in the future.

The basic principles of insurance are equally applicable with this method of insuring. In the event of a loss, the claim will be examined very carefully, including any of the voice recordings, for any inconsistencies. These could include proof of loss; insurable interest; underinsurance; physical and alarm protection of the property; security of the vehicle, which differs from what was disclosed (for example, where the vehicle is kept during the day and at night); who the usual driver of the vehicle is; and what the vehicle is used for.

When insurers provide the client with the policy document and schedule, it makes sense to also provide a copy of the proposal form or memorandum that was submitted, and to recommend that the client check the contents carefully, to avoid any problems should a claim arise. If the client changes any detail, this should be conveyed to the broker or insurer so that they may amend their records which will form the basis of the insurance contract. Claims are often rejected because the client has neglected to observe the basic principles of insurance when effecting cover. Obviously, this has a negative financial impact on the client, but it also contributes to the poor perception of the short-term industry. Misleading and untruthful statements are normally detected by the insurer only when a claim is submitted. By then, the client has often forgotten what they disclosed at proposal stage. But, it is the small print in the insurance contract that is blamed. What a wonderful world it would be if declarations were accurate at both inception and claims stage.