

How important is a proposal form?

Jimmy Fermor, Senior Underwriter, Renasa Insurance Company Limited



What lengths will we go to in order to protect our assets and valuables?

The intention of insurance is to place one in the same position after a loss as one was in prior to that loss. There are many circumstances which may give rise to a loss, not least amongst them being criminal intent. Many South Africans purchase insurance protection for their valuables and so transfer the risk of loss or damage to an insurer. This provides peace of mind, but at the same time, often at the insistence of the insurer, the insured must incur significant expense to minimize the risks and have their homes, valuables and vehicles protected.

Insurers play a critical role in the economy and provide jobs for many employees. They are in business but are conceived not only to ensure that their clients are fairly protected, but to do so while adhering to regulatory requirements, maintaining their statutory solvency, retaining sufficient liquidity to pay claims as well as covering their expenses.

The basic requirement for a client to effect insurance is the submission of some form of proposal to the insurer directly or via an intermediary. This document must declare the full details of the risk, which forms the basis of the contract for insurance cover. It is expected of prospective clients to exercise the basic principles of good faith; there is a duty to disclose all of the material facts concerning the risk, and proof that the property

to be insured does in fact exist. The underwriter will evaluate the risk and ascertain if those basic principles have in fact been disclosed. The physical and moral hazards also play an important part in the acceptance of a risk by the underwriter.

This practice of submitting a proposal form to insurers has evolved in that a client may now communicate telephonically with certain insurers/brokers, to request cover verbally thereby dispensing with the need to submit any form of documentation at application stage. A number of companies also accept the reporting of a claim telephonically. Very precise records of these conversations are essential and generally such conversations are voice recorded and recoverable if a dispute arises in the future.

In the event of a loss many factors are taken into consideration before the claim is paid, such as proof of loss, cause of the loss (is it an insured peril?), contribution (are there any other policies which also cover the loss?), insurable interest (is there proof of ownership/a reason for the insured to insure the article?), underinsurance necessitating the imposition of "average" etc. The insurer needs to be sure that they are fairly assessing and settling a claim which is covered in terms of the policy, as well as knowing that they were provided with full details of the risk.

When insurers provide the client with the policy document and schedule, they should consider sending the client a copy of the proposal form/memorandum that was submitted for the issuance of the policy and suggest that the client check the contents of the proposal form/memorandum carefully, to avoid any problems should a claim arise. If the client changes any detail, this should be conveyed to the broker/insurer to amend their records which will eventually form the basis of the contract.

Claims can be rejected because the client has neglected to observe the basic principles of insurance when effecting cover. Not only does this have a financial impact on the client, but it also creates a poor perception of the short term industry. We often hear comments about the "small print" in the policy contract and the evidence of misleading the client. Untruthful statements are normally only detected by the insurer when a claim is submitted. By then the insured/client may have forgotten what s/he disclosed at proposal stage and experiences a rude awakening if the claim is rejected.

So, diligence in recording risks at the time of proposal is crucial to accuracy at the inception of a contract of insurance and to ensure the smooth settlement of claims under such contract.