It is the person buying the property or life insurance who knows all the risks they want to insure. The principle of utmost good faith is in essence a security against fraud.

Identifying the head of corporations in the financial services sector at the Insurance Regulatory Authority in Kenya, Noella Mutanda explains that insurance companies have obligations to disclose all material facts before selling insurance policies. This principle is enacted to prevent insurance fraud and ensure that both the insurer and the insured have a clear understanding of the risks and benefits associated with the insurance contract. The principle of utmost good faith requires transparency and honesty in the communication between the insurer and the insured, and it is a cornerstone in establishing trust and ensuring fair and equitable treatment. Failing to disclose material facts can lead to invalidation of the insurance contract, and it is the responsibility of the insurer to ensure that all material facts are disclosed to the insured. Therefore, it is important for both parties to uphold this principle to maintain the integrity of the insurance market and protect against fraudulent practices.