INSURANCE REGULATORY AUTHORITY

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"Bima bora kwa Taifa"

BE TRUTHFUL WHEN BUYING INSURANCE

The main role of insurance is to pay the insured when a loss or misfortune occurs. However, note that payment is only made to those who have taken insurance cover. Insurance is based on trust of both the buyer (insured) and seller (insurer) of the insurance policy. To make this trust work, insurance is governed by six main rules called principles.The principles include utmost good faith, insurable interest, proximate cause, indemnity, subrogation and contribution. While it is important to make you understand each of these principles, we shall today discuss the principle of Utmost Good Faith.

The principle of utmost good faith requires the insured to provide correct information to the insurer about the property or life being insured. The insured must also tell the truth when making a claim following a loss.

When proposing to buy insurance, you will often be asked to fill a proposal form. The proposal form is designed to obtain information from you concerning the property or life you want to insure. The form contains relevant questions which you must answer truthfully. It has a section called declaration which you must sign to prove that all the information you have given in the form is correct and true to the best of your knowledge and belief.

Under ordinary commercial contracts, one is given the opportunity to examine what they want to buy and therefore make a decision based on what they have seen. This is, however, not the case with insurance where the facts upon which the contract is based are only known by the party buying insurance. For example, when one is buying motor vehicle insurance the insurer will ask for the value of the car, its model, make, age and the like. This will make the insurer understand the level of risk in the car. Such information will enable the insurer to choose to insure the car or not and therefore it must be as accurate as possible. It is the person buying property or life insurance who knows all the risks he wants to insure, while the insurance company does not know yet it is expected to pay in the event of a loss.

Further the principle of utmost good faith is in essence a security against fraud. This is because there are some instances where some people present fraudulent claims to insurance companies. Examples include reporting theft of a car which has actually been sold off, reporting injury in a road accident yet the purported injuries were sustained elsewhere, presenting a relative for treatment under a medical policy while the relative is not covered in the policy. Engaging in acts of dishonesty such as these amounts to a breach of the duty of utmost good faith and can lead to a claim being declined and the claimant being prosecuted in court.

The reason we have raised the need to be truthful with your insurer both at the time of buying insurance and when reporting a claim is to avoid problems insured persons face with insurance companies and also speed up the claims payment process. Note that the insurance company can decide to cancel your policy as if it never existed or refuse to pay your claim completely if you lie to them.

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