Key Aspects Of Nonlife Insurance Contracts.

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Uganda Insurers Association

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What is Nonlife Insurance

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- Non life insurance (General/Short term Insurance) is all other kinds of insurance other than Life-Insurance of which the insurer agrees to indemnify the insured.

- Most non-life insurance contracts are Indemnity contracts which apply to insurances where the loss suffered can be measured in terms of money.

- It provides payments depending on the loss from a particular financial event.

Salient features of Insurance

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- **Insurer;** One who undertakes the responsibility of risks i.e. the insurance company.
- **Insured;** One for whose benefit the insurance is affected i.e. one whose risk is undertaken by the insurance company.
- **Premium;** It is the consideration (i.e. the price) payable by the insured to the insurer, for the responsibility of risk undertaken by the insurer.
- **Policy document;** This is the document containing terms and conditions of the contract of insurance.
- **Policy Excess/deductible;** This is the amount an insured will be required to pay following a claim.

Policy document.

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The policy document is an evidence of an insurance contract. It contains;

- Declarations - Identifies who an insured is with their details, the insuring company, what risks or property are covered, the policy limits (amount of insurance), any applicable deductibles, the policy period and premium amount (the famous policy **SCHEDULE**).

- Definitions - Defines important terms used in the rest of the policy.

- Insuring agreement - Describes the covered perils, or risks assumed, or nature of coverage.

- Exclusions - Describes property, perils, hazards or losses arising from specific causes which are not covered by the policy.

- Conditions - These are specific provisions, rules of conduct, duties, and obligations that the insured must comply with in order for coverage to incept or must remain in compliance with in order to keep coverage in effect.

- Basis of cover/settlement. This simply provides a means by which an compensation will be calculated in the event of a covered loss or damage. This may be an indemnity or replacement/reinstatement.

- Lien clause/Loss payable clause. This provision limits the rights of the loss payee to be no higher than the rights guaranteed to the insured where an insurer pays a third party for a loss instead of the named insured or beneficiary.

Insurable Risks

An insurance company looks out for seven (7) elements to measure the level of risk and the premium payable.

1. Large numbers of exposure units.

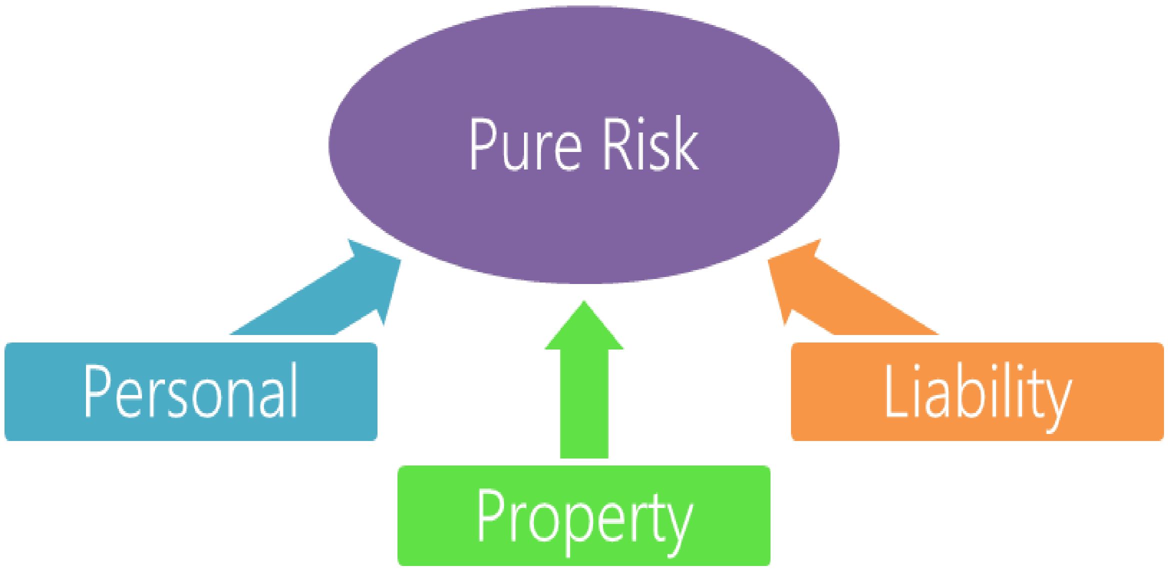
2. Defined and measurable loss.

3. Determinable probability distribution.

4. Fortuitous loss.

5. Catastrophic loss and Non Catastrophic Loss

6. Premium should be economically feasible.



There are generally three (3) types of pure risks;

a) **Personal risks:** ie Workmen's compensation and Group/Individual personal Accident

b) **Property risk:** Fire, Industrial All Risks, Engineering risks

c) **Liability risks:** Professional Indemnity, Public liability ,Employer's liability

d) **Miscellaneous/Theft Classes** - Cash in transit, Fidelity Guarantee , Goods in Transit,

e) Motor Risks

Insurance contract.

To understand your policy, it is important to note that insurance contracts are sub divided into two sections;

1. Contract essentials.

2. Contract values.

Insurance contract essentials

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1. **Agreement (offer and acceptance),** where the offer for entering into the contract may come from the insured although the insurer may also propose to make the contract.

2. **Legal consideration**, a valuable consideration must be given for starting the insurance contract. Without a consideration, there is no insurance contract (the importance of premium).

3. **Legal capacity,** You need to be legally competent to enter into an agreement with your insurer.

4. **Legal Purpose.** If the purpose of your contract is to encourage illegal activities, it is invalid.

Insurance contract values

1. **Insurable Interest.** For an insurance contract to be valid, the insured must possess an insurable interest in the subject matter of insurance.

2. **Utmost Good Faith**. Both parties to the insurance contract must agree at the time of the contract. There should not be any misrepresentation, non-disclosure or fraud concerning the material.

3. **Indemnity.** The insurer undertakes to put the insured, in the event of loss, in the same position that he occupied immediately before the happening of the event insured against.

4. **Subrogation.** This refers to the right of the insurer to stand in the place of the insured, after the settlement of a claim, in so far as the insured's right of recovery from an alternative source is involved.

5. **Warranties.** These are provisions in the insurance contract which are to be fulfilled by the insured. Warranties that are mentioned in the policy are called express warranties. Certain warranties are not mentioned in the policy and hence implied.

6. **Proximate Cause.** This means the actual efficient cause that sets in motion a train of events which brings about result, without the intervention of any force started and worked actively from a new and independent source.

7. **Return of Premium**. Ordinarily, the premium once paid cannot be refunded. However, in the following cases, the refund is allowed.

- By Agreement in the Policy.
- For Reasons of Equity.
- Over-insurance.

Challenges faced by Insurance Companies:

a) Growing insurance fraud.

b) There is a challenge of the general perception among members of the public including some lawyers that Insurance companies do not pay claimants. Consequently, there is bias against the insurance companies.

c) Non- remittance of Premiums & required documentations to support claims payment.

d) Motor Third party claims – The Act needs to be amended especially on the limits of compensation as the current benefits do not resonate with standards and treatment costs and make it a no fault basis.

e) Workers Compensation claims - Inflated medical awards by doctors that are not as per the Law. One of the probable reasons for awards outside the Law is probable ignorance by the doctors about the Law.

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