



Insurance 101: Insurance principals which you should know!

- Insurable interest
- Insurable risk
- Duty of disclosure
- Indemnity
- Average
- Compensation
- Subrogation
- Proximate cause
- Contribution

Insurable interest: Insurable interest is the legally recognised financial relationship between the insured and the financial loss that he suffers following a loss.

One can insure only those things with which one has a legally recognised financial relationship, for example, one can insure one's house against fire because if it burns down one will suffer a financial loss.

Legally recognised relationships are:

- owners and joint owners of property;
- mortgagees and mortgagors;
- bailees (a person holding another's goods and having a duty of care for those goods);
- agents;
- executors and trustees who can insure the property for which they are legally responsible;
- the relationship with your spouse. Husbands and wives have unlimited insurable interest in each other's lives.

Insurable risk: In order for a risk to be insured, there are certain basic requirements that must be met. These requirements are as follows:

- The cause of the loss must be accidental or fortuitous;
- There must be insurable interest; and
- The loss must not be intended for personal gain by fraudulent means.

Duty of disclosure: Disclosure means to make known, reveal or expose to view, all of the information. The obligation to disclose begins as soon as the negotiation for the insurance contract begins.

You the client must be in a position also to make an informed decision and GRIB needs to explain all the information about the financial product and the terms and conditions of the product you are purchasing.

In addition, you the client also have a duty to disclose all factors that might influence the risk for which you are seeking insurance for and when your risk profile changes if you have taken up cover.

Indemnity: Indemnity is when a person's financial position is restored, as a result of insurance, back to what it was immediately before the person experienced a loss. Indemnity and insurable interest are closely linked, as the principle of indemnity means that the insured cannot recover any amount exceeding the extent of his insurable interest.

Average: Average is a concept used by insurers to deal with underinsurance. If a policyholder is under-insured, he will not be paid in full when a loss occurs. The amount of any loss will be divided between the insurer and the insured, based on the full value of the property. Underinsurance occurs when an item is insured for less than its intended insurance replacement value the basis of settlement should be either market or replacement value.

It is important that you the insured should not select against the insurer by understating the value at risk and you the insured must therefore pay your full share into the insurance pool. The premium that you pay should be based on the amount of financial value at risk and not part thereof.

If the you understate your insured value, you will be paying an incorrect amount of premium and therefore be underinsured. Should you then have a claim, the principle of average will be applied as it will be deemed that you have self-insured the underinsured portion and accordingly the insurer will indemnify you for the portion that was insured.

Compensation: In short-term insurance personal accident and liability are examples of compensation policies. In the event of a loss the insured is paid an agreed amount of money. This differs from indemnity policies, where insured items are restored, repaired or replaced or the monetary value thereof is paid.

Subrogation: Subrogation is the legal provision under common law by which one party, usually an insurer, stands in the place of the insured, so as to have the benefit of the insured's rights and remedies against a third party.

Subrogation therefore means the right of one person to take over, or assume, the legal rights of another person.

Example: Elias is aware of how important insurance is. He has thus taken out insurance to cover his new car. One morning on his way to work, a car collides with his car. As a result of the collision, caused by the negligence of the other driver, Elias's car is badly damaged. There is R50 000 worth of damage to the car. Elias' insurer arranges for the

repair of his car. The insurer now has the right, through a process of subrogation, to recover the monies paid from the other driver's insurer or the driver himself where the driver is uninsured.

The subrogation clause states that insurers have the right to assume the insured's right to claim against the third party. This means that:

- The insurer may act as though they were the insured; and
- The insurer may begin acting before they pay out the money for repairing the damages to Elias's car.

Proximate cause: In an insurance contract, it is necessary to state the perils that are covered or excluded, so that all parties to the contract know exactly what perils are covered.

It is necessary, therefore, to examine the cause of loss in some detail because the insurer is only liable for losses "proximately" caused by an insured peril.

Definition: Proximate cause means the active, efficient cause that sets in motion a train of events that bring about a result, without the intervention of any force started and working actively from a new and independent source.

Examples:

- Damage is caused by smoke resulting from a fire, the fire is the proximate cause of the damage caused by the smoke;
- Damage caused by water used to extinguish a fire is proximately caused by fire;
- A person sustains accidental injury and is taken to hospital, where he contracts a disease from a patient in the next bed and dies from the disease, the accident is not the proximate cause of death;
- A wall is weakened by a motorcar that collides with it and the wall in its weakened state is subsequently blown down by a high wind, the proximate cause of the collapse of the wall is the wind (and not the impact of the motor car).

Contribution: Where the same risk is insured by two different insurers, contribution will apply in the event of a claim, in respect of that particular occurrence.

The definition of contribution is: "... the right of an insurer to call upon other insurers similarly (though not necessarily equally) liable to the same insured to share the cost of an indemnity payment."

Insurance is intended to indemnify the insured in the event of a loss. However, if there is more than one policy covering the same item, the policy's condition of contribution is applied.

Contribution in many instances could arise from clients not clearly understanding or being unaware of what they are covered for, which results in them acquiring duplicate cover.

Both you and our representative needs to be very careful in such instances to check for these types of situations as more often than not, insurers are tending to state that where more than one policy exists for the same risk, such insurer will not pay in the event of a claim. If both insurers adopt this policy, then this could result in there being no cover.